Financial Report of the United States Government 1999

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A MESSAGE FROM THE SECRETARY OF THE TREASURY

I am pleased to present the fiscal year 1999 Financial Report of the United States Government. The Report includes audited financial statements that cover the Executive Branch, as well as parts of the Legislative and Judicial branches of U.S. Government. The Administration initiated the development of this financial report in order to create what we believe is a practical management tool for policy-makers and a source of useful information for the public about the assets, liabilities, and operations of the government.

This report is another significant milestone in our efforts, begun in 1994, to account for the financial activities of the U.S. Government in a timely and professional manner. Developing the capability for the government to produce financial reports in accordance with generally accepted accounting principles is an enormous task.

I am also pleased to report that the standards developed by the Federal Accounting Standards Advisory Board (FASAB) are now recognized by the American Institute of Certified Public Accountants as being generally accepted accounting principles (GAAP) for the Federal Government. This is a major accomplishment. It will enhance the acceptability of our reports and will add to the level of financial professionalism throughout the U.S. Government.

Significant progress continues to be made in the area of financial management. More agencies are completing their financial statements on time and the quality of the data continues to improve. The successful Year 2000 remediation process has resulted in better systems and we have established, through the Joint Financial Management Improvement Program, a government-wide financial software certification process that is beginning to ensure that commercial systems meet the government's needs.

Despite this progress, we have much yet to achieve. A great deal of additional effort will be necessary to fully implement an entirely new and reliable system of reporting on the operations of the U.S. Government. The audit report from the General Accounting Office (GAO) discusses many significant areas in which the reliability of the current financial statements need to be improved before the GAO will be able to render an opinion on these statements.

We are committed to producing and reporting financial information that meets the highest standards of integrity, and to provide to the American people the accountability and professionalism they expect from their government.

Lawrence H. Summers

Fiscal 1999 Financial Report of the United States Government

Management's Discussion and Analysis

Introduction

"No other entity in the world compares in size, scope and complexity to the U.S. Government . . ."

No other entity in the world compares in size, scope and complexity to the U.S. Government. A civilian Federal workforce of nearly two million individuals serves a diverse Nation of more than 270 million Americans. The Federal Government is the largest land owner in the world. Its budgeted spending for fiscal 1999 was $1.7 trillion.

To fulfill its constitutional mandates, the U.S. Government undertakes a wide variety of programs to:

- Maintain strong, ready and modern military forces.
- Provide critical international leadership.
- Contribute to energy security.
- Protect the environment.
- Boost agricultural productivity.
- Facilitate commerce and support housing.
- Support the transportation system.
- Help economically distressed urban and rural communities.
- Assist States and localities in providing essential education and training.
- Promote health care.
- Foster income security.
- Provide benefits and services to veterans.
- Administer justice.

The Budget and Economy

Through the budget process, the President and Congress decide how much to spend and tax in any one fiscal year. The Federal budget, of course, is not the only budget that affects the economy or the American people. The budgets of State and local governments have an impact as well. Federal Government spending was a little less than 19 percent of the gross domestic product (or GDP, which measures the size of the economy) in 1999, the lowest since 1966.

Continued Improvement in Fiscal Performance

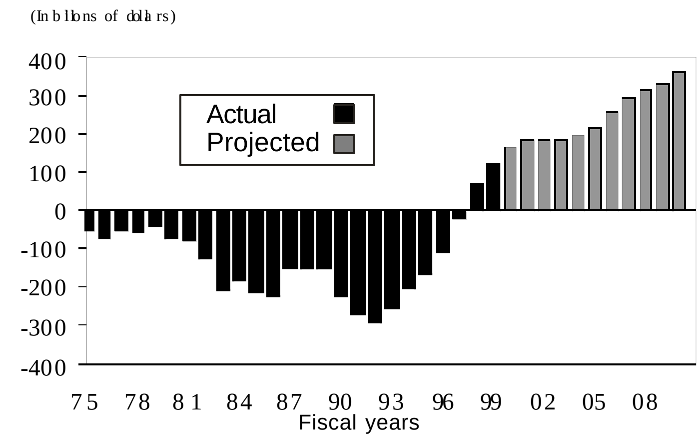
Seven years ago, the Federal budget deficit had exploded. It dominated the Government's ability to make policy and imposed an insidious burden on our economy. In 1992, the $290 billion deficit was the largest in American history and was projected to continue spiraling upward without restraint. The economy suffered, interest rates were high and job creation stalled. Capital that should have been used for productive investments to create new jobs was used to finance the Government's massive deficit-driven borrowing.

In 1993, the Omnibus Budget Reconciliation Act was signed. Its deficit reduction plan was to cut the deficit in half as a percentage of the economy in 5 years. That goal was met in only 3 years. The 1997 Balanced Budget Act proposed to eliminate the Federal deficit by fiscal 2002. In fact, it reached its goal 4 years ahead of schedule, producing the first budget surplus ($69 billion) in a generation in 1998.

We can now look back with pride at our progress and ahead with confidence as we consider the success of our fiscal discipline and the opportunity to build upon it. Today we have lower interest rates, a higher level of investment and unprecedented prosperity. Our economy has added more than 20 million new jobs. The unemployment rate is the lowest in 30 years; the welfare rolls are down by more than 50 percent since 1993; the core inflation rate is the lowest in 35 years; and more Americans own their homes than at any time in our history. Strong economic growth and passage of deficit reduction programs placed the budget on its path toward surplus.

The fiscal discipline we have demonstrated, combined with a fast-growing economy and rising stock market, contributed to another unified Federal budget surplus in fiscal 1999 of $124 billion. That was $55 billion above the surplus in fiscal 1998. The surplus relative to GDP amounted to 1.4 percent in 1999, the highest such ratio in almost 50 years. Federal debt held by the public was reduced by more than $85 billion in fiscal 1999 and by a total of almost $140 billion over the last 2 years.

Unified Federal Budget Surpluses and Deficits



Figures for fiscal 2000-2010 are projected. (Fiscal 2001 Budget)

"Today we have lower interest rates, a higher level of investment and unprecedented prosperity."

These were the first reductions in publicly held debt since 1969 and the largest debt reductions in history.

Receipts increased by about 6 percent in fiscal 1999 to $1,827 billion. This was slower growth than the 9 percent increase in fiscal 1998. The slowdown mainly reflected a decline in net corporate tax receipts, the first since 1990, due in part to weakness in overseas economies, which dampened profits of U.S. exporters. Individual income and payroll tax receipts also grew more slowly in 1999 but still posted a sizable 6.5 percent increase.

Growth of outlays was held to just over 3 percent in fiscal 1999, rising to $1,703 billion. The increase was in line with the gain in 1998. Outlays in relation to GDP were the smallest since 1974, dipping to an 18.7 percent share from 19.1 percent in fiscal 1998.

Pushing outlays down was a drop of $13 billion in net interest payments, reflecting the shrinking size of the Federal debt and the replacement of older debt with new debt at lower interest rates. Medicare payments also fell modestly over the fiscal year.

Spending increased for most other major Federal Government functions, including defense (up 2.4 percent after a small decline in 1998) and Social Security (up about 3 percent in fiscal 1999). The largest percentage gain by far among the major spending categories was for farm price supports, reflecting large outlays of the Commodity Credit Corporation in the wake of depressed agricultural prices.

According to the Fiscal Year 2001 Budget, the total unified budget surpluses are projected to increase each year throughout the forecast horizon to 2010. The Administration is committed to using the bulk of the surpluses to strengthen and modernize the Social Security and Medicare programs; invest in key priorities that will extend the economic expansion, such as education; and pay down the publicly held debt. Under Administration proposals, the current $3.6 trillion of debt held by the public is projected to be completely eliminated on a net basis by 2013.

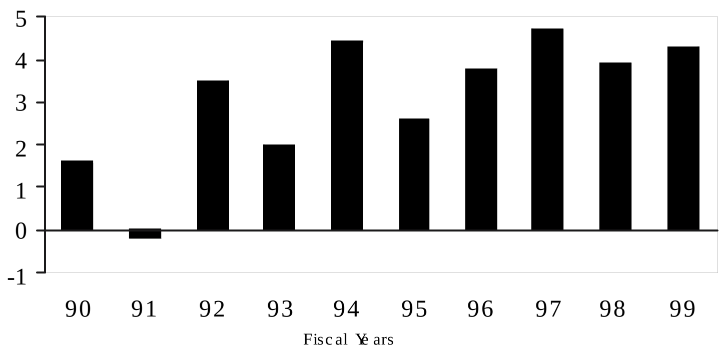
Continued Strong Economic Performance

Fiscal 1999 was one of accelerating economic growth. The expansion entered its ninth year and moved closer to a new record length. Real GDP grew by 4.3 percent across the four quarters of fiscal 1999, which encompasses the fourth quarter of calendar 1998 through the third quarter of calendar 1999. This was faster than growth over the previous fiscal year and higher than the average throughout the expansionary period.

Growth was led by strong gains in productivity. After trending up at an average annual rate of about 1.5 percent from 1974 to 1995, average increases in labor productivity accelerated by more than a full percentage point to 2.7 percent over the past 4 fiscal years. In 1999, productivity growth picked up even more, to 3.1 percent over the four quarters of the fiscal year. This is an unusually favorable performance at this stage of an expansion when productivity growth typically slows down from its earlier pace. Partly, it reflects the capital deepening that has occurred in recent years due to rapid gains in business investment, and partly, it may reflect improvements in production deriving from information technology. The faster rate of growth of productivity has increased overall economic growth and standards of living, allowing the unemployment rate to fall without a buildup of inflationary pressures.

Growth of Real GDP

Percentage change of the four quarters of each fiscal year.



"The expansion entered its ninth year and moved closer to a new record length."

Growth in consumer spending and business investment in capital equipment and software was very rapid in fiscal 1999. Real consumer purchases accelerated to more than 5 percent over the year to post the fastest rate of increase in 14 years. Higher spending was fueled by rising employment and incomes and higher net worths primarily due to the rising stock market. Private investment in equipment and software, which increased at double-digit rates over the past 7 years, also accelerated in fiscal 1999 and recorded its best year of the expansion, rising by 14.5 percent. Falling prices for computers and other high-tech goods due to improvements in quality and processing capacity contributed to the rapid growth in real investment. A widening foreign trade deficit continued to offset strength in other sectors of the economy in fiscal 1999, although the drag on real GDP diminished over the year as exports picked up due to some firming in overseas economies.

Labor markets remained strong in fiscal 1999. The unemployment rate drifted down from 4.5 percent at the start of the year to 4.2 percent by the end of fiscal 1999, and dipped even lower in the first quarter of fiscal 2000. These readings were the lowest in almost three decades. The share of the working-age population with jobs reached a record high, and long-term unemployment fell. The economy added 2.7 million jobs in the fiscal year, just a bit less than annual gains in the prior 2 fiscal years.

The rate of inflation increased in fiscal 1999 due to higher oil prices, but underlying inflationary pressures remained in check even with strong economic growth and low unemployment. The acceleration in productivity growth to more than 3 percent helped to hold down costs. The Consumer Price Index (CPI) rose by 2.6 percent over the fiscal year compared with only 1.4 percent in fiscal 1998 when oil prices fell. Excluding energy and food, however, growth in consumer prices slowed to 2.1 percent in fiscal 1999 from 2.4 percent in fiscal 1998.

The Federal Reserve raised short-term interest rates in the second half of the fiscal year and again in fiscal 2000. These actions more than reversed earlier easing moves that had been undertaken in 1998 to deal with temporary financial turmoil both here and abroad. In raising rates, the Federal Reserve cited concerns that continued faster growth in economic demand than in potential supply could foster inflationary imbalances. Long-term interest rates moved higher over the course of the fiscal year, dampening somewhat the very strong growth in housing.

Improving Financial Management of the Federal Government

For the first 200 years of the U.S. Government's existence, it did not publish consolidated financial reports other than on a budgetary basis. Much progress has been made in the area of financial management over the 3 years since the initial audited *Consolidated Financial Report of the United States Government.* Agencies are producing better records and better financial statements. The Year 2000 (Y2K) process has resulted in better systems, and the Joint Financial Management Improvement Program (JFMIP) certification process has forced many vendors to produce systems that more directly meet Government requirements. Nonetheless, we have more to achieve.

"Much progress has been made in the area of financial management . . . "

Historically, effective management of the U.S. Government has been hampered by a lack of reliable financial information. To help improve the integrity of financial information, in 1990 the Office of Management and Budget (OMB), the Department of the Treasury (Treasury) and the General Accounting Office (GAO) established the Federal Accounting Standards Advisory Board (FASAB) to develop accounting standards for the U.S. Government. The work of FASAB augments the efforts of the JFMIP to strengthen overall Federal financial management.

The standards developed by the FASAB are now recognized by the American Institute of Certified Public Accountants (AICPA) as being generally accepted accounting principles (GAAP) for the Federal Government. This is a major accomplishment. It will enhance the acceptability of our reports and will add to the level of financial professionalism throughout the U.S. Government.

Working to issue agency financial reports consistent with GAAP and to obtain clean audit opinions, the Administration is committed to improving the reliability of Federal financial information. Achieving an unqualified opinion on the financial statements of Federal agencies and the U.S. Government is a first step. Unqualified opinions lead to the development of better financial information which, when provided to management, will provide the basis for producing better decisions. Agencies and the Government as a whole must continue to work to implement systems that report financial and program information quickly and reliably, and then must use that information in the stewardship of the Nation's resources.

The accompanying Financial Report is required by 31 U.S.C. 331(e)(1) and consists of the Management's Discussion and Analysis (MD&A), Statement of Operations and Changes in Net Position, Statement of Net Cost, Balance Sheet, Stewardship Information, Notes to the Financial Statements and Supplemental Information. Each section is preceded by a description of its contents.

Basis of Accounting and Reporting Entity

Accounting Standards

"The recent recognition of Federal accounting standards by the AICPA as GAAP enhances their acceptability..."

The accompanying financial statements generally were prepared based on GAAP standards developed by FASAB. The recent recognition of Federal accounting standards by the AICPA as GAAP enhances their acceptability. These standards form the foundation for preparing consistent and meaningful financial statements both for individual Federal agencies and the Government as a whole.

GAAP for the Federal Government is tailored to the U.S. Government's unique characteristics and special needs. For example, land not used in U.S. Government operations (stewardship land), weapon systems and support property used in the performance of military missions, and vessels held as part of the National Defense Reserve Fleet (national defense assets) are reported in the Stewardship Information section rather than valued on the Balance Sheet. The Government's responsibilities and policy commitments are much broader than the reported Balance Sheet liabilities. They include the social insurance programs disclosed in the Stewardship Information section, as well as a wide range

Accounting Standards, cont.

of other programs under which the Government provides benefits and services to the people of this Nation.

Standards that were implemented in fiscal 1999 at the Governmentwide level require reporting of annual Federal expenses for stewardship investments. These also are examples of standards tailored to the special characteristics of the U.S. Government. Such investments include:

- Non-Federal physical property; the Federal investment in properties owned by State and local governments (e.g., highways and airports).
- Human capital; investments in education and training programs financed by the U.S. Government for the benefit of the public.
- Research and development; the U.S. Government's investments in basic and applied research and development.

The annual expense related to these investments included in the Statement of Net Cost is separately reported in the Stewardship Information section.

A new accounting standard, which became effective for fiscal 1999, requires that deferred maintenance be presented as required supplementary information. Reporting deferred maintenance highlights the reality that it is an expected cost, which has not been paid.

Accrual Basis

These financial statements of the U.S. Government are prepared based on GAAP that requires using the accrual basis of accounting. Under the accrual basis, transactions are reported when the events giving rise to the transactions occur, rather than when cash is received or paid (cash basis). In contrast, Federal budgetary reporting is generally on the cash basis in accordance with accepted budget concepts.

The most significant difference between these two bases involves the timing of recognition and measurement of revenues and costs. For example, GAAP requires recognition of liabilities for costs related to environmental cleanup when the events requiring such costs occur. By contrast, current budget concepts recognize such costs later, at the time payment is made. The effects of these differences are reflected in the Reconciliation of the Excess of Revenue Over Net Cost to the Unified Budget Surplus, in the Supplemental Information section of this Financial Report.

Coverage

The financial statements cover the executive branch, as well as parts of the legislative and judicial branches of the U.S. Government. A list of the significant entities included in these financial statements is in the Appendix. Information from the legislative and judicial branches is limited because those entities are not required by law to submit comprehensive financial statement information to Treasury. Due to its independence, the Federal Reserve System is excluded. In addition, Government-sponsored but privately owned enterprises (such as Federal Home Loan Banks and the Federal National Mortgage Association) are excluded.

Financial Results

The excess of revenue over net cost figure (accrual basis) contained in these financial statements for fiscal 1999 is $76.9 billion. In fiscal 1999, there was a unified budget surplus (primarily on the cash basis) of $124.4 billion. The primary components of the difference that have been identified are principal payments of pre-credit reform loans, $32.4 billion; decreases in the liability for veteran compensation and burial benefits, $94.9 billion; decreases in the liability for military employee benefits, $31.1 billion; increases in the liability for civilian employee benefits, $41.6 billion; increases in environmental liabilities, $88.7 billion; and, increases in capitalized fixed assets, $41.5 billion. For more information on the detailed reconciliation, see the Reconciliation of the Excess of Revenue Over Net Cost to the Unified Budget Surplus in the Supplemental Information section.

Revenue and Expense Summary

Revenue

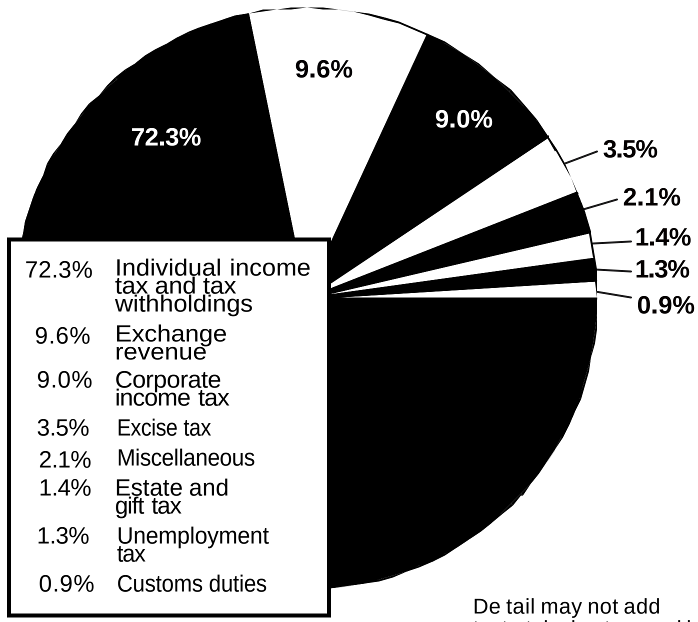
Non-exchange revenue is an inflow of resources to the Government that the Government demands or receives by donations. The inflows that it demands include taxes, duties, fines and penalties. Non-exchange revenue is the U.S. Government's primary source of revenue and totaled $1,822.4 billion in 1999. More than 95 percent of this total came from tax receipts, with the remainder coming from customs duties and other miscellaneous receipts.

Earned revenues are inflows of resources that arise from exchange transactions; for example, when the U.S. Government sells goods or services to the public. During 1999, the U.S. Government earned $192.6 billion in exchange revenue. Of these revenues, $182.1 billion is offset against the gross cost of the related functions to arrive at the function's net cost. The U.S. Government also earned $10.5 billion that was not offset against the cost of any function (e.g., royalties on the Outer Continental Shelf lands).

Expenses by Function

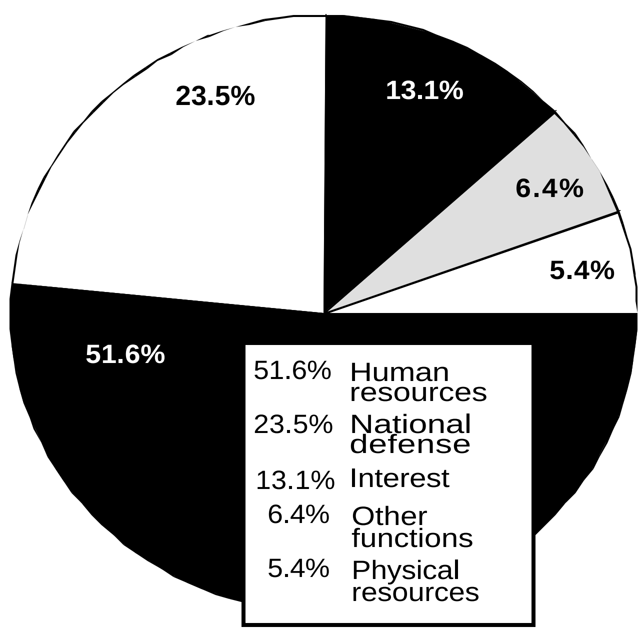
The net cost of U.S. Government operations was $1,756.0 billion for 1999. Net cost represents the gross cost of operations less attributable earned revenues. The Statement of Net Cost reflects the cost incurred to carry out the national priorities identified by the President and the Congress. The functions and subfunctions used to accumulate costs associated with the national priorities are identified in the President's budget and described in detail in the Supplemental Information section of this Financial Report. The accompanying chart presents the percentage of the net cost of U.S. Government operations represented by each of the U.S. Government's major functions.

Components of Revenue by Major Source



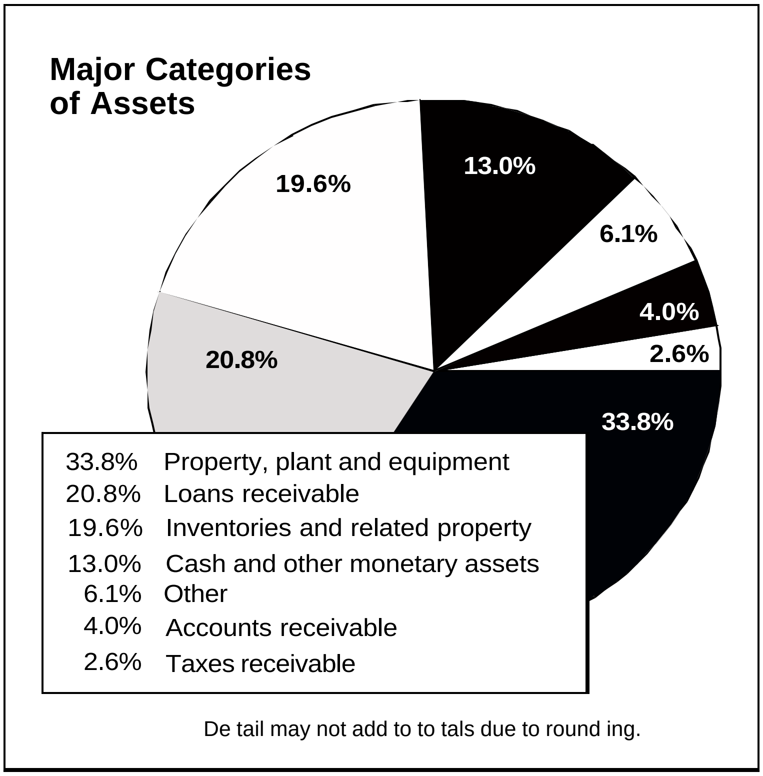
Detail may not add to totals due to rounding.

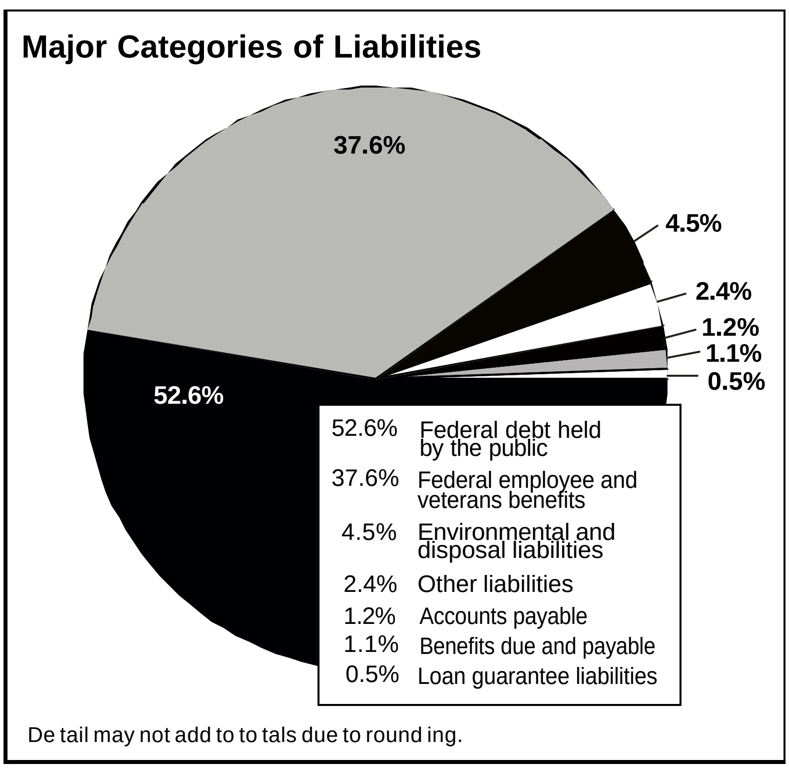
Net Cost by Major Function



Detail may not add to totals due to rounding.

Asset and Liability Summary





Assets

The assets of the U.S. Government are the resources available to pay liabilities or to satisfy future service needs. The accompanying chart depicts the major categories of reported assets as of September 30, 1999, as a percentage of reported total assets. Detailed information about the components of these asset categories can be found in the Notes to the Financial Statements.

The assets presented on the Balance Sheet are not a comprehensive list of Federal resources. For example, the U.S. Government's most important financial resource, its ability to tax and regulate commerce, cannot be quantified and is not reflected. Natural resources, stewardship land (national parks, forests and grazing lands), national defense assets and heritage assets are other examples of resources that are not included in the $883.0 billion of Federal assets reported on the Balance Sheet at the end of fiscal 1999. As can be seen, significant assets of the Federal Government are not reflected on the Balance Sheet.

Liabilities

At the end of fiscal 1999, the U.S. Government reported liabilities of $6,909.2 billion. These liabilities are probable and measurable future outflows of resources arising out of past transactions or events. The largest component of these liabilities ($3,631.6 billion) is represented by Federal debt securities held by the public. The next largest component ($2,600.7 billion) relates to pension, disability and health care costs for Federal civilian and military employees as well as for veterans. Included in this component is a Department of Veteran Affairs program whereby veterans or their dependents receive compensation benefits if the veteran was disabled or died from military service-connected causes. Changes in the assumptions for this actuarial liability resulted in a liability decrease of $94.9 billion. Another liability, which will likely require substantial future budgetary resources to liquidate, is related to environmental cleanup costs associated with environmental damage/contamination. As of September 30, 1999, the cost of cleaning up environmental damage/contamination across Government programs was estimated to be $313.2 billion, an increase of $88.7 billion from 1998.

The accompanying chart presents the percentage of total Federal liabilities represented by each of the categories of liabilities reported on the Balance Sheet. Additional details about the U.S. Government's reported liabilities can be found in the Notes to the Financial Statements.

Long-term Budgetary Outlook

The longer term economic and budget outlook is favorable—even more so than only a few years ago. With prudent fiscal policy, the budget could remain in surplus for many decades. The Administration projects budget surpluses in 2000 and throughout the customary 10-year budget window. However, such projections are inherently uncertain, because, while prudent fiscal policy can safeguard our hard-earned prosperity, so too can reckless choices dissipate the benefits of the budget discipline that is responsible for our ongoing success.

There are foreseeable challenges that will threaten budgetary stability in the 21st century. In less than 10 years, the "baby-boomers"—the large generation born between 1946 and 1964—will become eligible for early retirement under Social Security. In the space of two decades, the elderly's share of the U.S. population will jump from around 13 percent to 21 percent. This demographic bulge will put pressure on the Federal budget through Medicare and Social Security. Fiscal discipline—paying down the debt and reducing or eliminating interest payments—improves the long-run budget balance. Additional reforms such as the Administration proposals described below, will be needed to strengthen Social Security and Medicare. Additional information on receipt and outlay estimates can be found in the Current Services Assessment in the Stewardship Information section of this Financial Report.

Financial Condition of the Medicare Trust Funds

Two trust funds have been established to finance the Medicare program. The Medicare Part A Hospital Insurance Trust Fund is financed by a 2.9 percent tax on wages and salaries required to be paid equally by employees and employers. The Medicare Part B Supplementary Medical Insurance Trust Fund receives premium payments on behalf of Medicare beneficiaries who have elected coverage. The Balanced Budget Act of 1997 provides that the Medicare Part B premium is set at a level that will cover 25 percent of program costs. The remainder of the program cost is funded by congressional appropriations.

The 1999 Trustees' Annual Report projects that the Medicare Part A Trust Fund's assets will be depleted by 2015 using intermediate or "best estimate" assumptions. The Administration has proposed changes that will extend that date by at least a decade to at least 2025. Additional information about the Medicare program can be found in the Stewardship Information section of this Financial Report. At the time this report was prepared, the 2000 Trustees' Annual report was scheduled to be released on March 30, 2000. It's revised estimates will differ from those reported the previous year, which have been included in this Financial Report.

Financial Condition of the Social Security Trust Funds

Two trust funds have been established by law to finance the Social Security program (OASDI): Federal Old-Age and Survivors Insurance (OASI) and Federal Disability Insurance (DI). OASI pays retirement and survivors benefits and DI pays benefits after a worker becomes disabled. OASDI revenues consist primarily of taxes on earnings that are paid by employees, their employers and the self-employed. OASDI also receives revenue from taxation of some Social Security benefits. Revenues that are not needed to pay current benefits or administrative expenses are invested in Treasury securities to earn interest for the trust funds. The Board of Trustees of the OASI and DI Trust Funds provides the President and the Congress with short-range (10 years) and long-range (75 years) actuarial estimates of each trust fund. Because of the inherent uncertainty in estimates for as long as 75 years into the future, the Social Security Trustees use three alternative sets of economic and demographic assumptions to show a range of possibilities. Most analysts use the Trustees' intermediate or "best estimate" set of assumptions to evaluate the financial condition of the Social Security program.

Under current legislation and using intermediate assumptions, the Trustees estimated in their 1999 report, released on March 30, 1999, that by 2014 cash disbursements for the programs will exceed cash receipts and by 2034 the combined trust fund assets, primarily investments in Treasury securities, will be exhausted. With no change in the program, in 2014 the trust funds are expected to begin using interest on their investments to cover the cash shortfall and to pay benefits. Starting in 2022, they would begin redeeming their investments in Treasury securities to provide the needed funding. In 2034, trust fund assets would be exhausted; at that time, dedicated tax revenues would be sufficient to pay only approximately 71 percent of the benefits due. At the time this report was prepared, the Trustees' Annual Report was scheduled to be released on March 30, 2000. Its revised estimates will differ from those reported the previous year, which have been included in this Financial Report.

"The Administration has proposed plans that would extend the life of the trust funds to at least 2050 . . ."

The Administration has proposed plans that would extend the life of the trust funds to at least 2050, and intends to work with Congress on a bipartisan basis to enact long-term Social Security solvency and reform. Acting sooner rather than later to address the long-term financing needs of the program will make the required changes less severe and disruptive and ensure that Social Security works as well for future generations as it has for past generations. Additional information about the Social Security program can be found in the Stewardship Information section of this Financial Report.

Improving Government Management Overall

In addition to improving financial management, the Federal Government has in recent years devoted substantial efforts to improving other areas of management. These efforts are established and reported annually by OMB as Priority Management Objectives (PMOs). Coordinated, sustained and intensive management initiatives have been designed to address the issues in the accompanying text.

"Coordinated, sustained and intensive management initiatives have been designed to address the issues . . . "

Real progress has been made to improve program implementation and execution throughout the Government, on both a Governmentwide and agency-specific basis. For example:

Managing the Year 2000 (Y2K) computer problem. The Administration's first and foremost management objective was to resolve the Y2K computer problem. Y2K posed the single largest technology management challenge in history. The Federal Government's transition through the date change was, beyond all expectations, remarkably trouble free.

Modernizing student aid delivery. Significant progress was made modernizing student aid benefit delivery by expanding electronic access to benefits and services and reforming contracting, systems development, and program oversight practices. The new performance-based organization, created in 1998, hired a chief operating officer, assessed customer needs, developed a systems modernization blueprint, issued a 5-year performance plan and reorganized the staff into three service-oriented channels for students, schools and financial institutions.

Reengineering the naturalization process and reducing the citizenship application backlog. The Department of Justice's Immigration and Naturalization Service (INS) redesigned its naturalization process to streamline and automate operations, and simultaneously reduced a backlog of more than 1.8 million applications for citizenship. In 1999, INS reduced the backlog by more than 500,000 applications, and the average processing time between application and naturalization of qualified candidates has been reduced from 27 months in 1998 to 12 months in 1999. INS expects performance to improve further.

Improving management of the decennial census. The Bureau of the Census in the Department of Commerce ensured that the necessary support structure—which includes opening data capture centers, regional census offices and local census offices; printing forms; establishing a telephone questionnaire assistance program; printing language assistance guides; and recruiting and training temporary census workers—was established and tested and ready for operation.

Priority Management Objectives

Strengthening Governmentwide Management

1. Use performance information to improve program management and make better budget decisions.
2. Improve financial management information.
3. Use capital planning and investment control to better manage information technology.
4. Provide for computer security and protect critical information infrastructure.
5. Strengthen statistical programs.
6. Implement acquisition reforms.
7. Implement electronic Government initiatives.
8. Better manage Federal financial portfolios.
9. Align Federal human resources to support agency goals.
10. Verify that the right person is getting the right benefit.
11. Streamline and simplify Federal grant management.
12. Capitalize on Federal energy efficiency.

Improving Program Implementation

13. Modernize student aid delivery.
14. Improve the Department of Energy's (DOE's) program and contract management.
15. Strengthen the Health Care Financing Administration's (HCFA's) management capacity.
16. Implement Housing and Human Development (HUD) reform.
17. Reform management of Indian Trust Funds.
18. Implement Federal Aviation Administration (FAA) management reforms.
19. Implement Internal Revenue Service (IRS) reforms.
20. Streamline the Social Security Administration's (SSA's) disability claims process.
21. Revolutionize Department of Defense (DOD) business affairs.
22. Manage risks in building the International Space Station.
23. Improve security at diplomatic facilities around the world.
24. Reengineer the naturalization process and reduce the citizenship application backlog.

Systems, Controls and Legal Compliance

The Federal Government faces daunting problems in modernizing its financial management systems. Changing technology, as well as changing information needs, are occurring so rapidly that technology advances in today's systems become obsolete with identification of new data and systems requirements. The cornerstone of sound financial management, as well as performance measurement, is accurate, timely and useful information. Many Federal financial systems are simply unable to provide the data needed to manage programs and make good decisions. The Government needs to upgrade and replace many of its financial management systems.

The Federal Financial Management Improvement Act (FFMIA) pointed out that the development of financial management systems that support GAAP will improve Federal financial management. Improvement in financial systems depends upon: (1) an environment in which financial management systems can be successfully planned, developed, operated and maintained; (2) Governmentwide systems requirements that support information standards; and (3) the availability of systems that meet the Governmentwide systems requirements articulated in FFMIA. FFMIA supports and complements the Chief Financial Officers (CFO) Act, the Government Performance and Results Act, and the Government Management Reform Act. It establishes in statute certain financial management system requirements that are

Controls and Compliance, cont.

already established by the executive branch. Specifically, Federal systems must comply with Federal Financial Management Systems requirements, Federal Accounting Standards and the Standard General Ledger, at the transaction level.

The CFO Council, OMB, Treasury, the Joint Financial Management Improvement Program (JFMIP) and Federal agencies are all working to implement critical improvements to Federal financial management systems in six areas: (1) planning and investment; (2) Governmentwide and agency financial management systems infrastructures; (3) comprehensive data requirements; (4) comprehensive functional requirements; (5) industry partnerships; and (6) systems deployment.

This past year, JFMIP implemented a program of comprehensive testing of vendor core systems to determine compliance with JFMIP standards. Nine systems involving seven vendors have passed the rigorous tests. Only those systems certified by JFMIP as compliant may be purchased by program agencies as of October 1, 1999.

Numerous strong internal controls exist over Federal assets. These controls include the existence of a statutory budget and centralized cash management, debt and disbursement functions. In addition, Treasury's Financial Management Service (FMS) publishes the "Monthly Treasury Statement of Receipts and Outlays of the United States Government" (MTS), a summary statement prepared from agency accounting reports. The MTS presents the receipts, outlays, resulting budget surplus or deficit, and Federal debt for the month and the fiscal year-to-date and compares those figures to the same period in the previous year.

Financial Management Challenges

GAO has reported that serious financial management improvement challenges face the U.S. Government. The central challenge to producing reliable, useful and timely data throughout the year and at yearend is overhauling financial and related management information systems. Agencies also must address problems with fundamental recordkeeping, incomplete documentation and weak internal controls before their systems can produce reliable information on an ongoing basis.

Audits of agency financial statements disclose deficiencies that impede compliance with GAAP and, accordingly, improved financial management. As a result, despite progress over the past year, GAO again was unable to render an opinion on the reliability of the Governmentwide financial statements. The following exhibit illustrates agency progress toward unqualified audit opinions on their financial statements. (Audits for all of the 24 major agencies were not required until fiscal 1996.)

In 1996, only six agencies were able to obtain clean opinions. In 1999, 13 (and ultimately perhaps as many as 15) agencies received clean opinions

"While efforts have been substantial and there has been real progress, the task is extremely large . . ."

and 4 others received qualified opinions. This leaves only five agencies with disclaimed opinions, a condition where the auditors are unable to render an opinion, generally because of deficiencies in the accounting records. However, in a few cases, agencies could not prepare their financial statements in time for the audits to be completed within the March 1 timeframe. A total of seven agencies made some improvement in their audit opinions and four more than last year submitted their statements by the due date. While efforts have been substantial and there has been real progress, the task is extremely large and has been hampered by Y2K work receiving the bulk of systems resources in 1999. Additional progress is expected in 2000.

While progress has been made, recent audits disclosed that major agencies continue to have serious shortcomings in financial management reporting and systems that preclude their financial reports from being audited and receiving unqualified opinions. These agencies must satisfactorily address these problems in order to receive an unqualified opinion on their financial statements and for the U.S. Government to receive an unqualified opinion on its financial statements.

With respect to intragovernmental transactions, the challenge pertains to identifying and eliminating transactions between agencies. The audits of the U.S. Government's financial statements for fiscal 1997 through 1999 disclosed that agencies could not effectively identify transactions with other agencies so they could be eliminated for Governmentwide reporting. If these transactions are not properly eliminated, total U.S. Government assets, liabilities, revenues and expenses will be misstated by the amount of these transactions.

Challenges, cont.

During fiscal 1999, Treasury continued to focus on resolving intragovernmental transaction issues. For fiduciary balances totaling over $2 trillion involving the Bureau of the Public Debt and the Federal Financing Bank, virtually all of the accounting differences have been explained so that these transactions can be eliminated. Progress also has been made regarding intragovernmental buying and selling transactions by using a revised elimination methodology, but work remains to be done in this area.

Treasury continues to assist agencies in reconciling their fund balance amount with the amount reported by Treasury. During this past year, Treasury issued policy statements and guidelines for accomplishing the reconciliation. Reconciliation is an ongoing accounting function, and agencies have made significant strides to institutionalize the process.

	Unqualified opinions
	Qualified opinions
	Opinion disclaimers
?	Agencies that have not yet filed.

CFO Act Agency Audit Opinions on Financial Statements

Agency	1996	1997	1998	1999
USDA				
Commerce				
DOD				
Education				
DOE				
HHS				
HUD				
DOI				?
DOJ				
DOL				
State				?
DOT				
Treasury				
VA				
AID				
EPA				
FEMA				
GSA				
NASA				
NRC				
NSF				
OPM				
SBA				
SSA				
Total unqualified	6	11	12	13

Additional Information

Additional details about the information contained in these financial statements can be found in the financial statements of the individual agencies listed in the Appendix. In addition, related U.S. Government publications such as the “Budget of the United States Government,” the “Treasury Bulletin,” the “Monthly Treasury Statement of Receipts and Outlays of the United States Government,” the “Monthly Statement of the Public Debt of the United States,” and the Trustee’s reports for the Social Security and Medicare programs may be of interest.

GAO
Accountability * Integrity * Reliability

Comptroller General
of the United States

United States General Accounting Office
Washington, DC 20548

B-285019

March 28, 2000

The President
The President of the Senate
The Speaker of the House of Representatives

Implementation of important legislative reforms remains underway to promote greater accountability in managing the finances of our national government. These reforms include requirements for annual audited financial statements for 24 major departments and agencies as well as preparation of the financial statements of the U.S. government, which GAO is required to audit. The report on our audit of these financial statements for fiscal year 1999 is enclosed.

These financial reporting requirements are prompting steady improvements in federal financial accountability, and there has been progress toward meeting the related legislative objectives. The President has designated financial management improvement as a priority management objective and efforts are underway across government to address the pervasive, generally long-standing financial management problems discussed in our accompanying report. Thus far, 13 of 24 major agencies have received unqualified opinions on their fiscal year 1999 financial statements and others have resolved certain previously reported financial statement deficiencies. For example, the Department of Energy resolved its previously reported deficiency related to its environmental and disposal liability associated with nuclear weapons. Also, in October 1999, the American Institute of Certified Public Accountants recognized federal accounting standards as a generally accepted basis of accounting, which represents a major milestone for the federal government.

At the same time, several major departments are not yet able to produce auditable financial statements on a consistent basis. There are several major obstacles to overcome, both at the agency level and in preparing reliable financial statements for the U.S. government. The deficiencies discussed in our accompanying report prevented us from being able to form an opinion on the reliability of the accompanying fiscal year 1999 financial statements, as was the case in our fiscal years 1998 and 1997 audits. These deficiencies continue to significantly impair the federal government's ability to adequately safeguard certain significant assets, properly record various transactions, and comply with selected provisions of laws and regulations related to financial reporting. Additionally, (1) the government is unable to determine the full extent of improper payments—estimated to total billions of dollars annually—and therefore cannot develop effective strategies to reduce them, (2) serious, long-standing computer security weaknesses expose the government's financial and other sensitive information to inappropriate disclosure, destruction, modification, and fraud, and critical operations to disruption, and (3) material control weaknesses affect the government's tax collection activities.

The executive branch recognizes that, because of the extent and severity of the financial management deficiencies, addressing them will require concerted improvement efforts across government. With a concerted effort, the federal government, as a whole, can continue to make progress toward achieving accountability and generating reliable financial and management information on a timely basis and in an ongoing manner. Annual financial audits represent an important means to assure continued progress in connection with improving federal financial management.

While obtaining unqualified “clean” audit opinions on federal financial statements is an important objective, it is not an end in and of itself. The key is to take steps to continuously improve internal control and underlying financial and management information systems as a means to assure accountability, increase the economy, improve the efficiency, and enhance the effectiveness of government. These systems must generate timely, accurate, and useful information on an ongoing basis, not just as of the end of the fiscal year. Unfortunately, for fiscal year 1999, the financial management systems of almost all agencies were again found not to be in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996. In addition, while some attention to delineating core competencies and training has occurred, a great deal more needs to be done to improve financial management human capital.

Reliable financial information is essential for analyzing the government’s financial condition and helping inform budget deliberations by providing additional information beyond that provided in the budget. The budget of the federal government is primarily formulated on a cash basis, which also is generally the basis for calculating the annual budget surplus or deficit. The financial statements are prepared generally on the accrual basis of accounting. The most significant difference between the budget and accrual basis of accounting is the timing of recognition and measurement of revenues and costs.

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Accrual information can be used with budgetary information to provide a valuable perspective on the costs of agency programs and the government's assets and long-term commitments. This is especially important given current demographic trends and the fiscal challenges that will result.

Last year we discussed the Year 2000 challenge in our report. The federal government has met the "date change" challenge. The leadership exhibited by the legislative and executive branches and the partnerships formed by a myriad of public, private, and international organizations were critical factors behind this success.

The accompanying Financial Report and our report include certain information concerning the Social Security and Medicare (Part A) trust funds, such as projected contributions and expenditures, dates when expenditures are expected to exceed contributions, and dates when such funds are expected to be exhausted. Such information is as of January 1, 1999 for Social Security and as of September 30, 1999 for Medicare (Part A), the most recent information publicly reported by the government. The government plans to issue, on March 30, 2000, updated information as of January 1, 2000. The government's issuance of dated information in this Financial Report at about the same time that it issues more current information may cause confusion to the Congress and the public. Steps should be taken, in future years, to ensure that the government's Financial Report contains up-to-date information as of no earlier than the end of the most recent fiscal year. Because current information on the solvency of the Social Security and Medicare programs is critical to assessing the financial condition of the federal government, aiding in budget deliberations, and fostering public debate, we will include the updated information on these two important federal programs in a report that will also contain the Fiscal Year 1999 Financial Report of the United States Government.

We appreciate the cooperation and assistance we received from the Chief Financial Officers and Inspectors General throughout government, as well as Department of the Treasury and Office of Management and Budget officials, in carrying out our responsibility to audit the government's financial statements. We look forward to continuing to work with these officials and the Congress to achieve the goals and objectives associated with financial management reform.

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Our report was prepared under the direction of Jeffrey C. Steinhoff, Acting Assistant Comptroller General for Accounting and Information Management, and Robert F. Dacey, Director, Consolidated Audit and Computer Security Issues. If you have any questions, please contact me on (202) 512-5500 or them on (202) 512-3317.

David M. Walker
Comptroller General
of the United States

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Comptroller General
of the United States

United States General Accounting Office
Washington, DC 20548

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The President
The President of the Senate
The Speaker of the House of Representatives

The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), is required to annually submit financial statements for the U.S. Government to the President and the Congress.[1] GAO is required to audit these statements. This is our report on our audit of the financial statements of the U.S. government for fiscal year 1999.[2]

In summary, certain significant financial systems weaknesses, problems with fundamental recordkeeping and financial reporting, incomplete documentation, and weak internal control, including computer controls, continue to prevent the government from accurately reporting a significant portion of its assets, liabilities, and costs. Some of these deficiencies primarily relate to specific major agencies; others, such as intragovernmental transactions, affect the entire government. These deficiencies affect the reliability of the accompanying financial statements and much of the related information in the Fiscal Year 1999 Financial Report of the United States Government, as well as the underlying financial information. They also affect the government's ability to accurately measure the full cost and financial performance of certain programs and effectively manage related operations.

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[1]The Government Management Reform Act of 1994 requires such reporting beginning with financial statements prepared for fiscal year 1997.

[2]Our report on the fiscal year 1998 financial statements is entitled Financial Audit: 1998 Financial Report of the United States Government (GAO/AIMD-99-130, March 31, 1999).

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Major problems included the federal government's inability to:

- properly account for and report (1) material amounts of property, equipment, materials, and supplies and (2) certain stewardship assets, primarily at the Department of Defense;
- properly estimate the cost of certain major federal credit programs and the related loans receivable and loan guarantee liabilities, primarily at the Department of Agriculture;
- estimate and reliably report material amounts of environmental and disposal liabilities and related costs, primarily at the Department of Defense;
- determine the proper amount of various reported liabilities, including postretirement health benefits for military employees and accounts payable and other liabilities for certain agencies;
- accurately report major portions of the net cost of government operations;
- ensure that all disbursements are properly recorded; and
- properly prepare the federal government’s financial statements, including balancing the statements, accounting for substantial amounts of transactions between governmental entities, properly and consistently compiling the information in the financial statements, and reconciling the results of operations to budget results.

Such deficiencies prevented us from being able to form an opinion on the reliability of the accompanying fiscal year 1999 financial statements, as was the case in our fiscal years 1998 and 1997 audits. These deficiencies continue to significantly impair the federal government's ability to adequately safeguard certain significant assets, properly record various transactions, and comply with selected provisions of laws and regulations related to financial reporting. Additionally, (1) the government is unable to determine the full extent of improper payments—estimated to total billions of dollars annually—and, therefore, cannot develop effective strategies to reduce them, (2) serious, long-standing computer security weaknesses expose the government's financial and other sensitive information to inappropriate disclosure, destruction, modification, and fraud, and critical operations to disruption, and (3) material control weaknesses affect the government's tax

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collection activities. Further, the financial management systems of almost all agencies were again found not to be in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996.

Our audit and the Inspectors General (IG) audits of major component agencies' financial statements for fiscal year 1999 continue to result in (1) an identification and analysis of deficiencies in the government's recordkeeping, financial reporting, and control systems and (2) recommendations to correct them. Fixing these problems represents a significant challenge because of the size and complexity of the government and the discipline and human capital needed to follow sound financial management and reporting practices.

This report provides our (1) disclaimer of opinion on the government's fiscal year 1999 financial statements, (2) report on internal control, and (3) report on compliance with selected provisions of laws and regulations related to financial reporting. It also provides illustrations of the identified material deficiencies. A more complete discussion of these issues may be found in individual agency reports. Additionally, the report highlights certain long-term financing issues facing government. The objectives, scope, and methodology of our work are discussed in the appendix to this report. We provided a draft of this report to Department of the Treasury and OMB officials, who expressed their commitment to address the deficiencies this report outlines. We did our work in accordance with generally accepted government auditing standards.

DISCLAIMER OF OPINION

Because we were unable to determine the reliability of significant portions of the accompanying financial statements for the reasons outlined above and described in more detail below, we are unable to, and we do not, express an opinion on the accompanying fiscal year 1999 financial statements.

Because of the serious deficiencies in the government’s systems, recordkeeping, documentation, financial reporting, and controls, readers are cautioned that amounts reported in the financial statements and related notes may not be a reliable source of information for decision-making by the government or the public. These deficiencies also affect the reliability of information contained in the accompanying Management's Discussion and Analysis and any other financial management information--including information used to manage the government day-to-day and certain budget information reported by agencies--which is taken from the same data sources as the financial statements.

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Further, while we have not audited and do not express an opinion on the Stewardship Information, Supplemental, or Other Information included in the accompanying Financial Report, we noted certain material omissions related to the presentation of national defense assets and issues related to the reconciliation of the results of operations to budget results, which are discussed below.

The accompanying Financial Report and our report include certain information concerning the Social Security and Medicare (Part A) trust funds, such as projected contributions and expenditures, dates when expenditures are expected to exceed contributions, and dates when such funds are expected to be exhausted. Such information is as of January 1, 1999 for Social Security and as of September 30, 1999 for Medicare (Part A), the most recent information publicly reported by the government. The government plans to issue, on March 30, 2000, updated information as of January 1, 2000. The government's issuance of dated information in this Financial Report at about the same time that it issues more current information may cause confusion to the Congress and the public. Steps should be taken, in future years, to ensure that the government's Financial Report contains up-to-date information as of no earlier than the end of the most recent fiscal year. Because current information on the solvency of the Social Security and Medicare programs is critical to assessing the financial condition of the federal government, aiding in budget deliberations, and fostering public debate, we will include the updated information on these two important programs in a report that will also contain the Fiscal Year 1999 Financial Report of the United States Government.

Material Deficiencies

The following sections describe material deficiencies that contribute to our disclaimer of opinion, discuss their effects on the financial statements and the management of government operations, and highlight certain corrective actions. Although the federal government has made steady progress, the fundamental nature of these deficiencies remains unchanged from our fiscal year 1998 and 1997 financial statement reports. Each of these deficiencies also constitutes a material weakness in internal control.[3]

[3] A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material to the financial statements may occur and not be detected on a timely basis by employees in the normal course of performing their duties.

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Property, Plant, and Equipment and Inventories and Related Property

The federal government--one of the world's largest holders of physical assets—does not have adequate systems and controls to ensure the accuracy of information about the amount of assets held to support its domestic and global operations. A majority of the $472 billion of these reported assets is not adequately supported by financial and/or logistical records. Assets that are not adequately supported include: (1) buildings, structures, facilities, and equipment, (2) various government-owned assets that are in the hands of private sector contractors, and (3) operating materials and supplies comprised largely of ammunition, defense repairable items, and other military supplies. Also, the government cannot ensure that all assets are reported. For example, no Department of Defense (DOD) contractor-held personal property was reported. Further, national defense asset unit information reported as Stewardship Information was incomplete because (1) it did not include major national defense support equipment, such as uninstalled engines and communications equipment, and (2) amounts were reported in units, rather than in dollars as required by current generally accepted accounting principles. DOD, the largest holder of these assets, has acknowledged the challenges it faces to implement effective systems and accurately record data to properly account for and report its physical assets and has a number of initiatives underway that are intended to address this problem. These initiatives are expected to span several years.

Because the government lacks complete and reliable information to support its asset holdings, it could not satisfactorily determine that all assets were included in the financial statements, verify that reported assets actually exist, or substantiate the amounts at which they were valued. For example, periodic physical counts have shown that inventory records contain significant error rates. Further, weak controls significantly impair the government’s ability to detect and investigate fraud or theft of assets.

Accurate asset information is necessary for the government to (1) know the assets it owns and their location and condition, (2) safeguard its assets from physical deterioration, theft, or loss, (3) account for acquisitions and disposals of such assets, (4) prevent unnecessary storage and maintenance costs or purchase of assets already on hand, and (5) determine the full costs of government programs that use these assets.

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Loans Receivable and Loan Guarantee Liabilities

As of the end of fiscal year 1999, the government reported $184 billion of loans receivable and $35 billion of liabilities for estimated losses related to estimated future defaults of guaranteed loans. Certain federal credit agencies, responsible for significant portions of the government's lending programs, were unable to properly estimate the cost of these programs in accordance with generally accepted accounting principles and budgeting requirements. As an example, the Department of Agriculture, which represents a significant portion of loans receivable, could not estimate the net loan amounts expected to be collected because it does not maintain some of the key historical data needed to predict borrower behavior, such as the amount and timing of future defaults and prepayments. Agriculture's lack of historical data is largely the result of system inadequacies. Certain affected agencies are in the process of implementing action plans intended to develop reliable loan and loan guarantee information. Reliable information about the cost of credit programs is important in supporting annual budget requests for these programs, making future budgetary decisions, managing program costs, and measuring the performance of credit activities. Federal credit programs include direct loans and loan guarantees for farms, rural utilities, low and moderate income housing, small businesses, veterans' mortgages, and student loans.

Environmental and Disposal Liabilities

Significant portions of the liability for remediation of environmental contamination and disposal of hazardous waste, reported at $313 billion, lacked adequate support and may not be complete. For example, the estimated cost to remove unexploded ordnance and residual contaminants from training ranges, amounting to over 40 percent of DOD's recorded liability, is not adequately supported. Also, the cost of significant estimated liabilities associated with certain major weapons systems and training ranges, initially recorded in fiscal year 1999, was reported as a current year cost, rather than as a prior period adjustment as required by generally accepted accounting principles.

Properly stating environmental and disposal liabilities and improving internal control supporting the process for their estimation could assist in determining priorities for cleanup and disposal activities and allow for appropriate consideration of future budgetary resources needed to carry out these activities. DOD, which has significant exposure for environmental and disposal liabilities, improved its initial estimate in fiscal year 1999 by including additional categories of liabilities, such as nuclear weapons systems. Also, DOD has a project in progress that is intended to better identify and document all additional environmental and disposal liabilities.

Liabilities

Adequate systems and cost data were not available to accurately estimate the reported $196 billion military postretirement health benefits liability included in federal employee and veteran benefits payable. Information used to develop such estimates did not include the full cost of providing health care benefits. In addition, some of the underlying patient workload data were not reliable. DOD is evaluating methods to develop a reliable estimate of this liability. Also, some agencies do not maintain adequate records or have systems to ensure that accurate and complete data were used to estimate a reported $86 billion of accounts payable and a reported $169 billion in other liabilities. For example, a liability was not reported for certain amounts owed to contractors that, under the terms of the contracts, were held by the government pending the acceptance of goods or services. Further, the government was unable to provide adequate information to determine whether commitments and contingencies were complete and properly reported. These problems significantly affect the determination of the full cost of the government's current operations, the value of its assets, and the extent of its liabilities.

Cost of Government Operations

The government was unable to support significant portions of the $1.76 trillion reported as the total net cost of government operations. The previously discussed material deficiencies in reporting assets and liabilities and the lack of effective cash disbursement reconciliations and deficiencies in financial statement preparation, as discussed below, affect reported net costs. Further, we were unable to determine whether the amounts reported in the individual net cost categories on the Statement of Net Cost and in the subfunction detail in Supplemental Information were properly classified. Accurate cost information is important to the federal government's ability to control and reduce costs, assess performance, evaluate programs, and set fees to recover costs where required.

Cash Disbursement Activity

Several major agencies are not effectively reconciling cash disbursements. These reconciliations are intended to be a key control to detect and correct errors and other misstatements in financial records in a timely manner--similar in concept to individuals reconciling personal checkbooks with a bank's records each month. Although improvements in some agency reconciliation processes have been noted, there continued to be billions of dollars of unreconciled differences between agencies' and Treasury records of cash disbursements as of the end of fiscal year 1999. As a result, the government is unable to ensure that all disbursements are properly recorded. Improperly recorded disbursements could result in misstatements in the financial statements and in certain data provided by agencies for inclusion in the President's budget concerning fiscal year 1999 obligations and outlays.

Preparation of Financial Statements

The government does not have sufficient systems, controls, or procedures to properly prepare financial statements for the U.S. government. Such deficiencies, described below, impair the government's ability to (1) properly balance the government's financial statements and account for billions of dollars of transactions between governmental entities, (2) properly and consistently compile the information in the financial statements, and (3) effectively reconcile the results of operations reported in the financial statements with budget results. Also, certain financial information required by generally accepted accounting principles was omitted from the financial statements.

Unreconciled Transactions. To make the financial statements balance, Treasury recorded a net $24 billion item on the Statement of Operations and Changes in Net Position, which it labeled unreconciled transactions. Treasury attributes this net out-of-balance amount to the government's inability to properly identify and eliminate transactions between federal government entities, to agency adjustments that affected net position, and to errors. An additional net $12 billion of unreconciled transactions was improperly recorded in net cost. These unreconciled transactions result in material misstatements of assets, liabilities, revenues, and/or costs.

Agencies' accounts can be out of balance with each other, for example, when one or the other of the affected agencies does not properly record a transaction with another agency or the agencies record the transactions in different accounting periods. These out-of-balance conditions can be detected and corrected by instituting procedures for reconciling transactions between agencies on a regular basis and in a timely manner.

In fiscal year 1999, the government required agencies to reconcile certain intragovernmental accounts. Some of these accounts, such as those related to employee benefits, could not be reconciled. Also, in fiscal year 1999, the government gathered, for the first time, the detail of certain intragovernmental accounts by "trading partner"agency. Using this information, we estimated that the amounts reported for agency trading partners for these specific intragovernmental accounts were out-of-balance by more than $350 billion. With trading partner information, the government can begin to analyze the nature of these intragovernmental account differences and develop effective solutions. Solutions will also be required for significant differences reported in other intragovernmental accounts, primarily related to appropriations. The government stated that it plans to require agencies to reconcile additional intragovernmental accounts in fiscal year 2000 and has formed task forces to recommend solutions to this long-standing problem.

Unreconciled transactions also may arise because the government does not have effective controls over reconciling net position. The net position reported in the financial statements is derived by subtracting liabilities from assets, rather than through balanced accounting entries. Also, certain adjustments and eliminations do not balance. Such control weaknesses, combined with unbalanced transactions and the significant volume of transactions and number of reporting entities, result in misstatements in the financial statements, hinder the ability of the government to identify misstatements that may exist, and may contribute to the amount of reported unreconciled transactions.

Financial Statement Compilation. The federal government cannot ensure that the information in the financial statements of the U.S. government is properly and consistently compiled. To prepare the federal government's financial statements, about 70 agencies submit data to Treasury on approximately 2,000 separate reporting components, each having many account balances. In fiscal year 1999, the Department of Treasury, which prepares the accompanying financial statements, implemented a new process for reconciling these financial statements with the related agency financial statements. While the process identified the nature of certain inconsistencies, the government was unable to reconcile all amounts included in these financial statements with agency financial statements. Further, material adjustments and reclassifications were required to (1) make the financial statements more consistent with agency financial statements, (2) correct identified inconsistencies in reporting similar transactions, (3) conform footnote information to related financial statement line items, and (4) record other audit adjustments. We identified over $350 billion of adjustments and reclassifications which the government subsequently recorded, such as financial statement compilation errors that had resulted in a $66 billion overstatement of interest cost and a $70 billion overstatement of Medicare costs.

These problems are compounded by the substantial volume of information submitted and limitations in the federal government's general ledger (SGL) account structure. For example, some SGL accounts must be split between different financial statement line items. As a result, additional misclassifications and misstatements in the government's financial statements could exist. Also, the extensive manual intervention required to compile the federal government's financial statements requires significant resources which lessens the government's ability to perform effective financial analysis of the information. For example, because of SGL limitations, the government separately collects additional information needed to compile the financial statements. However, such additional information, historically, is initially inconsistent with the related SGL account balances by hundreds of billions of dollars. After substantial effort, such inconsistencies were reduced to an immaterial amount.

Reconciling the Results of Operations With Budget Results. The federal government does not yet have a process to obtain information to effectively reconcile the reported $77 billion excess of revenue over net cost and a reported unified budget surplus of $124 billion. Consequently, it could not identify all of the items needed to reconcile these amounts. Certain differences are expected to occur because the financial statements of the U.S. government are to be prepared on the accrual basis in accordance with generally accepted accounting principles, which is a different basis than the budget. Under accrual accounting, transactions are reported when the events giving rise to the transactions occur, rather than when cash is received or paid. By contrast, federal budgetary reporting is generally on the cash basis in accordance with accepted budget concepts and policies.

Beginning in fiscal year 1998, 24 major agencies were required to reconcile their reported net costs to budget information, which could provide a basis for preparing the reconciliation. However, significant amounts reported in certain agency reconciliations, including unliquidated obligations and certain other budget information, lacked adequate supporting information and may be unreliable. For example, significant amounts of DOD transactions were not applied or were incorrectly applied to specific budget appropriations, which could misstate certain reported budget information. Once the federal government produces reliable financial statements, an effective reconciliation could help provide additional assurance of the reliability of budget results.

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INEFFECTIVE INTERNAL CONTROL

Because of the effects of the material weaknesses discussed below, the federal government has not maintained effective internal control to ensure that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements. Individual agency financial statement audit reports describe the effects of such weaknesses on specific agencies and identify additional internal control weaknesses, some of which are material to individual agencies.

In addition to the material weaknesses related to the deficiencies discussed in our disclaimer on the financial statements, we found that (1) the government's inability to determine the full extent of improper payments impairs the effective reduction of such improper payments, (2) widespread and serious computer control weaknesses affect virtually all federal agencies and significantly contribute to many of the material deficiencies discussed above, and (3) material control weaknesses affect the government's tax collection activities. Due to the deficiencies noted throughout this report, additional material weaknesses may exist that have not been reported.

Improper Payments

The government is unable to determine the full extent of improper or erroneous payments, which include payments made for unauthorized purposes, for excessive amounts, such as overpayments to program recipients or contractors and vendors, and/or not in accordance with applicable laws and regulations. Across government, improper payments occur in a variety of programs and activities, including those related to contract management, federal financial assistance, and tax refunds. Reported estimates of improper payments total billions of dollars annually.

The Department of Health and Human Services (HHS) has been reporting a national estimate of improper Medicare Fee-for-Service payments since fiscal year 1996. In fiscal year 1999, HHS reported estimated improper Medicare Fee-for-Service payments of $13.5 billion, or about 8 percent of such benefits—down from $23.2 billion or 14 percent for fiscal year 1996. HHS' reporting and analysis of improper Medicare payments has helped lead to the implementation of several initiatives to identify and reduce such payments. Annual estimates of improper payments in future audited financial statements will provide information on the progress of these initiatives.

However, most agencies have not estimated the magnitude of improper payments in their programs, nor have they considered this issue in their annual performance plans. For example, the Earned Income Tax Credit (EITC) program—a refundable tax credit available to low income, working taxpayers—has historically been vulnerable to high rates of invalid claims. During fiscal year 1999, IRS examined about 573,000 suspicious tax returns claiming $1.25 billion in EITCs and found that $1.08 billion (86 percent) were invalid. Although the full extent of refunds resulting from invalid EITCs is unknown, the IRS has not disclosed any improper payment estimates in its financial statement reports. In another example, HHS has not reported an estimate of improper payments in its $109 billion state-administered Medicaid program, but is currently studying methodologies for developing an estimate and has formed partnerships with various state auditors to share information on improper payments.

Improper payments can result from incomplete or inaccurate data used to make payment decisions, insufficient monitoring and oversight, or other deficiencies in agency information systems and weaknesses in internal control. The risk of improper payments is increased in programs involving (1) complex criteria for computing payments, (2) a significant volume of transactions, or (3) an emphasis on expediting payments. The reasons for improper payments range from inadvertent errors to fraud and abuse.

Without a systematic measurement of the extent of the problem, agency management cannot determine (1) if the problem is significant enough to require corrective action, (2) how much to invest in internal control, or (3) the success of efforts implemented to reduce improper payments. Developing mechanisms to identify, estimate, and report the nature and extent of improper payments in annual financial statements is only a first step for agencies. Without this fundamental knowledge, agencies cannot be fully informed about the magnitude or trends of improper payments, nor can they pinpoint or target mitigation strategies.[4]

[4] Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments (GAO/AIMD-00-10, October 29, 1999).

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In October 1999, we recommended that OMB develop and implement a methodology for annually estimating and reporting improper payments and for addressing improper payments in agencies' annual performance and strategic plans and performance reports. OMB agrees with this recommendation. In this regard, the President has made estimating and preventing improper payments a priority management objective and OMB plans to require agencies to develop and implement procedures to estimate and report the nature and extent of material improper payments in annual financial statements and have such information audited.

Computer Security Weaknesses

Continuing serious and widespread computer security weaknesses are placing enormous amounts of federal assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. Significant computer security weaknesses in systems that handle the government's unclassified information have been reported in each of the major federal agencies. The most serious reported problem is inadequately restricted access to sensitive data. Other types of weaknesses pertain to not adequately segregating duties to help ensure that people do not conduct unauthorized actions without detection, preventing unauthorized software from being implemented, and mitigating and recovering from unplanned interruptions in computer service. In today's highly computerized and interconnected environment, such weaknesses are vulnerable to exploitation by outside intruders as well as authorized users with malicious intent. Recent media reports highlight the potential damage that can result from computer security breaches.

The government cannot estimate the full magnitude of actual damage and loss resulting from federal computer security weaknesses because it is likely that many such incidents are either not detected or not reported. GAO and agency reviews illustrate the potential for negative impacts. For instance, weaknesses in DOD information security continue to provide hackers and hundreds of thousands of authorized users the opportunity to modify, steal, and destroy DOD data including financial, procurement, logistics and other sensitive information. Also, identified weaknesses at HCFA, SSA, IRS, and VA place tax, medical and other sensitive records at risk of unauthorized disclosure, modification, and destruction. Unauthorized disclosure of sensitive information has led to instances of identity theft, in which individuals use such information to commit financial crimes, such as fraudulently establishing credit and running up debts. Likewise, serious and pervasive computer security problems at EPA increase the risk that mission-related systems and financial operations are vulnerable to tampering, disruption, and misuse. Further, pervasive weaknesses at the Department of the Treasury, which collects virtually all of the government's revenues and makes most of its disbursements, expose such collections and disbursements to significant risk of loss or fraud.

GAO and the IGs have issued numerous reports that identify information security weaknesses in the federal government and made recommendations to address them.[5] Also, GAO has reported information security as a high-risk area across government since February 1997.[6]

Information security problems continue to persist, in large part, because agency managers have not fully established comprehensive security management programs. An effective program would include a central security function and effective procedures for assessing risks, establishing appropriate policies and related controls, raising employee awareness of prevailing risks and mitigating controls, and monitoring and evaluating the effectiveness of established controls. Such programs, if properly implemented, would provide the government with a solid foundation for resolving computer security problems and managing computer security risks on an ongoing basis.

The Congress continues to express concern about the significant risks to federal government systems and information that result from computer security weaknesses. Congressional hearings have focused on specific agency deficiencies and have clarified the problem across government. Further, S. 1993, the Government Information Security Act of 1999, recently introduced in Congress, seeks to strengthen information security practices throughout the federal government.

The Administration has recognized the importance of computer security and has taken some steps to prompt improvement from a governmentwide perspective. In January

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[5] See, for example, Critical Infrastructure Protection: Comprehensive Strategy Can Draw on Year 2000 Experiences (GAO/AIMD-00-1, October 1, 1999) and Information Security: Serious Weaknesses Place Critical Federal Operations at Risk (GAO/AIMD-98-92, September 23, 1998).

[6] High-Risk Series: An Update (GAO/HR-99-1, January 1999), High-Risk Series: An Overview (GAO/HR-97-1, February 1997), and High-Risk Series: Information Management and Technology (GAO/HR-97-9, February 1997).

2000, the President released the *National Plan for Information Systems Protection*,[7] which calls for new initiatives to strengthen the nation's defenses against threats to public and private sector information systems that are critical to the country's economic and social welfare. In addition, the President designated computer security as a priority management objective.

Tax Collection Activities

The federal government continues to have material weaknesses in controls related to its tax collection activities, which affect its ability to efficiently and effectively account for and collect the government's revenue. This situation results in the need for extensive, costly, and time-consuming ad hoc programming and analysis, as well as material audit adjustments, to prepare basic financial information—an approach that cannot be used to prepare such information on a timely, routine basis to assist in ongoing decision-making. Additionally, the severity of the system deficiencies that give rise to the need to resort to such procedures for financial reporting purposes, as well as deficient physical safeguards, result in burden to taxpayers and lost revenue.

Serious financial management system deficiencies continue to affect the federal government's ability to effectively manage its taxes receivable and other unpaid assessments.[8] The lack of appropriate subsidiary systems to track the status of taxpayer accounts affects the government's ability to make informed decisions about collection efforts. This weakness has resulted in the government pursuing collection efforts against individual taxpayers who had already paid their taxes in full. In addition, the government does not always pursue collection efforts against taxpayers owing taxes to the federal government. This could result in billions of dollars not being collected and adversely affect future compliance.

[7] Defending America's Cyberspace: National Plan for Information Systems Protection: Version 1.0: An Invitation to a Dialogue. Released January 7, 2000. The White House.

[8] Other unpaid assessments consist of amounts for which (1) neither the taxpayer nor a court has affirmed are owed or (2) the government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency.

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The federal government also continues to be vulnerable to loss of tax revenue due to weaknesses in preventive and detective controls over disbursements for tax refunds. Although the government does have detective controls in place, they are not applied to millions of tax returns estimated to have billions of dollars in underreported tax liabilities. These conditions expose the government to potentially billions of dollars in losses due to inappropriate refund disbursements.

Also, the government does not perform sufficient up-front verification procedures to ensure the validity of amounts claimed by taxpayers as overpayments prior to making disbursements for refunds. Additionally, delays in recording tax amounts owed result in lost opportunities to retain or offset overpayments made by a taxpayer for one period to collect on outstanding amounts owed for another period, resulting in lost revenue. Finally, serious deficiencies in physical controls over cash, checks, and sensitive data received from taxpayers increase both the government's and the taxpayers' exposure to losses and increases the risk of taxpayers becoming victims of crimes committed through identity fraud.

IRS senior management has expressed a commitment to address many of these operational and financial management issues and has made a number of improvements to address some of these weaknesses. Successful implementation of long-term efforts to resolve these serious problems will require the continued commitment of IRS management as well as substantial resources and expertise.

NONCOMPLIANCE WITH CERTAIN LAWS AND REGULATIONS

Tests for compliance with selected provisions of laws and regulations related to financial reporting disclosed no instances of material noncompliance. However, other instances of noncompliance, some of which are material to individual federal agencies, are reported in the individual agency financial statement audit reports. Additionally, as described below, we noted that federal systems do not substantially comply with federal financial management systems requirements. We caution that noncompliance other than that discussed in our report may occur and not be detected by these tests and that our limited testing may not be sufficient for other purposes. Further, the scope of our tests was limited by the material deficiencies discussed above. Our objective was not to, and we do not, express an opinion on overall compliance with laws and regulations.

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Noncompliance With the Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires auditors, as part of financial audits of certain major agencies, to report whether agencies' financial management systems comply substantially with federal accounting standards, financial systems requirements, and the government's standard general ledger at the transaction level. Thus far, for fiscal year 1999, agency financial auditors have reported that 19 of 22 major agencies' financial systems did not comply with the act's requirements. Systems of the remaining two major agencies that have not yet issued audited fiscal year 1999 financial statements did not comply with the act's requirements for fiscal years 1998 and 1997. Noncompliance with FFMIA, which we further discuss in our report, Financial Management: Federal Financial Management Improvement Act Results for Fiscal Year 1998 (GAO/AIMD-00-3, October 1, 1999), is indicative of the overall continuing poor condition of agency financial systems. Also, as we reported, agency remediation plans, required by FFMIA, may not adequately address the system deficiencies. Significant time and investment are needed for agencies to address and correct these long-standing financial management systems problems.

The majority of federal agencies' financial management systems do not meet systems requirements and cannot provide reliable financial information for managing day-to-day government operations and holding managers accountable. For many agencies, the preparation of financial statements requires considerable reliance on ad hoc programming and analysis of data produced by inadequate financial systems that are not integrated, reconciled, and often require significant adjustments. As a result, reliable financial information on a day-to-day basis is not available for effective financial management. For example, as discussed above, the IRS relies on extensive, costly, and time-consuming ad hoc programming and analysis, as well as material audit adjustments, to prepare basic financial information. The significant financial management deficiencies discussed throughout this report underscore the challenge.

FINANCIAL STATEMENTS AND BUDGET DECISIONS: ADDING THE LONG-TERM PERSPECTIVE

A view of the long-term sustainability of fiscal policies can assist decisionmakers in considering the government's financial position and making decisions about resource allocation. Such a view requires projections of spending and revenues into the future. In this context, the sovereign power to tax and the commitments of social insurance programs—such as Social Security and Medicare—must be considered.

The accompanying Financial Report and our report include certain information concerning the Social Security and Medicare (Part A) trust funds, such as projected contributions and expenditures, dates when expenditures are expected to exceed contributions, and dates when such funds are expected to be exhausted. Such information is as of January 1, 1999 for Social Security and as of September 30, 1999 for Medicare (Part A), the most recent information publicly reported by the government. The government plans to issue, on March 30, 2000, updated information as of January 1, 2000. The government's issuance of dated information in this Financial Report at about the same time that it issues more current information may cause confusion to the Congress and the public. Steps should be taken, in future years, to ensure that the government's Financial Report contains up-to-date information as of no earlier than the end of the most recent fiscal year. Because current information on the solvency of the Social Security and Medicare programs is critical to assessing the financial condition of the federal government, aiding in budget deliberations, and fostering public debate, we will include the updated information on these two important federal programs in a report that will also contain the Fiscal Year 1999 Financial Report of the United States Government.

Commitments for the Social Security and Medicare programs are included in the Stewardship Information accompanying the financial statements. The government's 75 year estimates of the present value of expenditures in excess of contributions for the Social Security (Old Age Survivors and Disability Insurance (OASDI)) programs amounted to $ 3.7 trillion, as of January 1, 1999, and for the Medicare (Part A) program amounted to $3.1 trillion, as of September 30, 1999. The government's projections also indicate that Social Security and health care costs will absorb an increasing share of the federal budget.

In fiscal year 1999, Social Security trust funds reported surpluses of $124.7 billion and Medicare (Part A) reported surpluses of $21.5 billion, which included non-cash intragovernmental interest income of $52.1 billion and $9.3 billion, respectively. These surpluses contributed to the $124.4 billion unified budget surplus. However, for example, as discussed in the accompanying Stewardship Information, using the government's best estimates as of January 1, 1999, cash disbursements of the Social

Security trust funds (OASDI) are expected to exceed cash receipts beginning in fiscal year 2014.

When trust funds' receipts exceed disbursements, they are invested in Treasury securities and used to meet current cash needs of the government. These securities are assets to the trust funds and liabilities to the Treasury. In effect, one part of the government is lending to another. As disclosed in notes 10 and 19, both the investments and liabilities, which amounted to $2 trillion at September 30, 1999, are netted out in the accompanying financial statements. Such investments are expected to increase to over $4 trillion in the next 20 years.

Expected cash shortfalls in the trust funds will require them to redeem their investments in Treasury securities. When this occurs, the government must fund these redemptions through some combination of future surpluses, if available, lower relative spending for other federal programs, higher relative taxes, and/or greater relative borrowing from the public. Further, under the government's projections, absent any program or financing change, the Social Security trust funds and Medicare (Part A) Trust Fund will exhaust their Treasury security holdings in 2034 and 2015, respectively.

There is general recognition that the Social Security and Medicare (Part A) programs require major reforms to deal with the long-term solvency and sustainability of these two programs. The fact that Social Security is expected to draw down its Treasury securities holdings in less than 15 years, and that it is expected that Medicare will need to do so in less time, highlights the importance of acting soon in order to avoid more dramatic changes in the future.

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We are working with OMB, the Treasury, and other agencies across government to provide recommendations for fixing the major deficiencies cited in our audit. Considerable effort is now being exerted to address the problems, and several agencies, such as SSA, have made good progress toward achieving financial management reform goals. We have designated the most serious situations as high risk, including financial management at DOD, IRS, the Forest Service, and the Federal Aviation Administration, as well as information security.

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In addition, the continued coordinated efforts of the Treasury and OMB will be required to provide solutions for certain governmentwide deficiencies, such as the inability to properly identify and eliminate transactions between federal entities and the compilation of the financial statements. We will continue to provide suggestions for resolving governmentwide problems and to evaluate progress in overcoming them.

David M. Walker
Comptroller General
of the United States

March 20, 2000

APPENDIX

OBJECTIVES, SCOPE, AND METHODOLOGY

The federal government is responsible for

- preparing the annual financial statements in conformity with generally accepted accounting principles;

- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met[9]; and

- complying with applicable laws and regulations and FFMIA requirements.

Our objective was to audit the fiscal year 1999 financial statements.

The Government Management Reform Act expanded on the requirements of the CFO Act by requiring that the IGs of 24 major federal agencies annually audit agencywide financial statements prepared by these agencies.[10] Our work was performed in close coordination and cooperation with the IGs to achieve our joint audit objectives. This work included separate GAO audits of certain material agency components, as discussed below. Our audit approach focused on the Departments of the Treasury, Defense, and Health and Human Services and the Social Security Administration. These agencies comprise a major portion of the amounts reported in the federal government's financial statements. At other federal agencies, we focused largely on accounts that are material to the financial statements. Additionally, for two agencies, information has been included in these financial statements but the agencies have not, at this date, finalized their individual financial statements for fiscal year 1999. Therefore, we were unable to determine the reliability of the amounts included in the accompanying financial statements for these agencies. We performed sufficient audit work to provide our report on the financial statements, internal control, and compliance with laws and regulations.

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[9]The FMFIA requires agency managers to evaluate and report annually to the President on the adequacy of their internal controls and accounting systems and what is being done to correct the problems.

[10]GMRA authorized OMB to designate agency components that also would receive a financial statement audit.

APPENDIX

We separately audited the following material agency components.

- We audited and expressed an unqualified opinion on the IRS statement of custodial activity for fiscal year 1999. IRS was able to reliably report on the results of its custodial activities, including nearly $1.9 trillion of tax revenue, $185 billion of tax refunds, and $21 billion of net federal taxes receivable. However, we issued an opinion on the IRS balance sheet that was qualified for the components of net position, disclaimed an opinion on its statements of net cost, changes in net position, budgetary resources, and financing, and reported numerous material internal control weaknesses.[11]

- We audited and expressed an unqualified opinion on the Schedule of Federal Debt Managed by Treasury's Bureau of the Public Debt for the fiscal year ended September 30, 1999.[12] This schedule reported (1) over $3.6 trillion of federal debt held by the public comprising individuals, corporations, state or local governments, the Federal Reserve System, and foreign governments and central banks, (2) $2 trillion of federal debt held by federal entities, such as the Social Security trust funds, and (3) $230 billion of interest on federal debt held by the public.

- We performed audit procedures on cash balances maintained and internal controls over the cash receipts and disbursements processed by Treasury on behalf of the federal government. We provided the results of our work to the Treasury Office of Inspector General for consideration in its audit of the Treasury's fiscal year 1999 departmentwide financial statements.

[11] Financial Audit: IRS' Fiscal Year 1999 Financial Statements (GAO/AIMD-00-76, February 29, 2000).

[12] Financial Audit: Bureau of the Public Debt's Fiscal Years 1999 and 1998 Schedules of Federal Debt (GAO/AIMD-00-79, March 1, 2000).

APPENDIX

- We audited and expressed unqualified opinions on the December 31, 1998, financial statements for the funds administered by the Federal Deposit Insurance Corporation (FDIC), including the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund.[13] In addition, we performed audit procedures and tests of internal controls for cash, investments, and other material balances of the funds administered by FDIC as of September 30, 1999.

At CFO Act agencies and other agencies, we reviewed the fiscal year 1999 financial statement audits performed by the IGs or their contractors and, for certain agencies, assisted in the development of audit plans for fiscal year 1999 audits. Financial statements and audit reports for these agencies provide additional information about the operations of each of these entities. For example, these audits have identified numerous internal control and accounting systems weaknesses and noncompliance with laws and regulations, some of which are material to the respective agencies or components. Further, as of the completion of our field work on March 20, 2000, 22 of the 24 CFO Act agencies had received audit opinions or disclaimers on their fiscal year 1999 financial statements. Of the 22 agencies, 13 received unqualified opinions. These agencies are the

Social Security Administration,
National Science Foundation,
General Services Administration,
Department of Energy
National Aeronautics and Space Administration,
Nuclear Regulatory Commission,
Department of Labor,
Small Business Administration,
Federal Emergency Management Agency,
Department of Commerce,
Department of Health and Human Services,
Department of Transportation, and
Department of Veterans Affairs.

[13] Financial Audit: Federal Deposit Insurance Corporation's 1998 and 1997 Financial Statements (GAO/AIMD-99-202, June 30, 1999).

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Financial Statements of the United States Government for the Year Ended September 30, 1999

Statement of Operations and Changes

This Statement reports the results of Government operations. This includes revenues principally generated by the Government's sovereign power to tax, levy duties, and assess fines and penalties. This statement covers the cost of Government operations, net of revenue earned from the sale of goods and services to the public. It also includes any adjustments and unreconciled transactions that affect the net position.

Revenue

The main source of revenue for Government operations consists of taxes and other revenue the Federal Government generates under its sovereign powers.

"Individual Income Tax and Tax Withholdings" consist of Federal individual income taxes, Social Security taxes, Medicare taxes and railroad retirement taxes, net of related refunds.

"Miscellaneous earned revenue" consists of earned revenues received from the public with virtually no associated cost. This category includes revenues generated from spectrum auctions and rents and royalties on the Outer Continental Shelf Lands.

Net Cost of Government Operations

The Statement of Net Cost summarizes the "Net cost of Government operations," which is gross cost minus earned revenue.

Unreconciled Transactions

"Unreconciled transactions" are adjustments made to balance the change in net position.

Net Position, Beginning of Period

The "Net position, beginning of period" reflects the net position reported on the prior year's Balance Sheet.

Prior Period Adjustments

"Prior period adjustments" are revisions to correct the beginning net position.

Net Position, End of Period

This amount reflects the net position on the current year's Balance Sheet.

Statement of Net Cost

This Statement presents the net cost of fiscal 1999 Government operations. It also shows the cost to carry out national priorities as determined by law.

It also categorizes costs by major function. It presents costs in much the same way as does the budget, except that costs are allocated to functions based on accounting standards. Thus, this Statement reports costs on an accrual basis and in some cases allocates them differently than the budget. For example, this Statement allocates the cost of pensions and retiree health benefits among all the functions that employ workers. The budget categorizes pension payments to civilian retirees as a subfunction, found under "Income security." The budget categorizes agency contributions to retirement funds as intragovernmental outlays distributed among all the functions that employ workers. A description of each of the functions and the components of net cost for the activities included in each function is presented in Supplemental Information as "Net cost detail."

This Statement contains the following three components for each function:

- The gross cost of Government operations.
- The revenues earned from the sale of goods and provision of services to the public.
- The net cost of Government operations, which is gross cost less revenue earned.

Gross Cost

"Gross cost" includes the full cost of all functions. These costs may be directly traced, assigned on a cause and effect basis, or reasonably allocated to the function.

Earned Revenue

This is revenue the Government earned by providing goods and services to the public at a price.

Net Cost

The "Net cost" of Government operations is computed by subtracting "Earned revenues" from "Gross cost."

Balance Sheet

The Balance Sheet shows the Government's assets and liabilities. When combined with Stewardship Information, this information presents a more comprehensive understanding of the Government's financial position. Most line items on the Balance Sheet are described in the Notes to the Financial Statements. The first note, for example, provides information on the accounting policies for assets and liabilities.

Assets

Assets included on the Balance Sheet are resources of the Federal Government that remain available to meet future needs. The most significant assets that are reported in the Balance Sheet are loans receivable and inventories, as well as property, plant and equipment. There are, however, other significant resources available to the Government that extend beyond the assets presented in this Financial Statement. Those assets include Stewardship Assets and the Government's sovereign powers to tax, regulate commerce and set monetary policy. They also include natural resources.

Selected assets are highlighted in the Stewardship Information section of this report to demonstrate the Federal Government's accountability for these assets. Stewardship assets include national defense assets, stewardship land and heritage assets.

National defense assets

"National defense assets" are weapon systems and supporting assets used by the military for the Nation's common defense and general welfare.

Stewardship land

"Stewardship land" is land that the Federal Government does not expect to use to meet its obligations, unlike the assets listed in the Balance Sheet. This land includes land set aside for the use and enjoyment of present and future generations and land on which military bases are located. Stewardship land is measured in non-financial units such as acres of land and lakes, miles of parkways, and miles of wild and scenic rivers. Examples of stewardship land include national parks, national forests, wilderness areas, and land used to enhance ecosystems to encourage animal and plant species and to conserve nature.

Heritage assets

"Heritage assets" are Government-owned assets that have one or more of the following characteristics: historical or natural signifi-

Assets, cont.

cance; cultural, educational, or artistic importance; or significant architectural features. The cost of heritage assets often is not determinable or relevant to their significance. Like stewardship land, the Government does not expect to use these assets to meet its obligations. The most relevant information about heritage assets is non-financial. Examples of heritage assets include: the Declaration of Independence, the Constitution and the Bill of Rights preserved by the National Archives. Also included are national monuments such as the Vietnam Veterans Memorial, Jefferson Memorial and the Washington Monument as well as art and cultural treasures at the Smithsonian Institution and the Library of Congress.

Many other sites such as the battlefields, historic structures and national historic landmarks also are placed in this category.

Liabilities and Net Position

Liabilities are obligations of the Federal Government resulting from prior actions that will require financial resources. The most significant liabilities reported on the Balance Sheet are Federal debt securities held by the public and accrued pension liabilities for current and retired Federal civilian and military personnel. Liabilities also include social insurance benefits due and payable as of the reporting date.

As with reported assets, the Government's responsibilities and policy commitments are much broader than these reported Balance Sheet liabilities. They include the social insurance programs disclosed in Stewardship Information, a wide range of other programs under which the Government provides benefits and services to the people of this Nation, and certain future loss contingencies.

The magnitude and complexity of social insurance programs, coupled with the extreme sensitivity of projections relating to the many assumptions of the programs, produce a large range of possible results. The Stewardship Responsibilities section describes the social insurance programs, reports long-range estimates that can be used to assess the financial condition of the programs, and explains some of the factors that impact the various programs. Using this information, readers can apply their own judgment as to the solvency and sustainability of the individual programs.

Each of the social insurance programs has an associated trust fund to account for its activity. An explanation of the trust funds for social insurance and many of the other large trust funds is included in Note 19—Dedicated Collections. That note also contains information about trust fund receipts, disbursements and assets.

A broad perspective on the Federal Government's responsibilities is provided by the Current Services Assessment, which also can be found under Stewardship Information. Presented in accordance with the President's budget, this information estimates Federal expenditures and receipts for fiscal 2000 to 2005, provided there are no changes to current law.

The Government has entered into contractual commitments requiring the future use of financial resources and also has unresolved contingencies where existing conditions, situations or circumstances create uncertainty about future losses. Commitments as well as contingencies that do not meet the criteria for recognition as a liability on the Balance Sheet, but for which there is at least a reasonable possibility that a loss has been incurred, are disclosed in Note 18—Commitments and Contingencies.

"Net position" is presented as the sum of Balance Sheet assets less Balance Sheet liabilities.

The large negative net position amount does not imply that the Government is insolvent. Because of its sovereign power to tax, and the country's wide economic base, the Government has unique access to financial resources to finance its debts. This provides the Federal Government the ability to meet present obligations and those that are anticipated from future operations.

United States Government
Statement of Operations and Changes in Net Position
for the Year Ended September 30, 1999

(In billions of dollars)

Revenue:	
Individual income tax and tax withholdings	1,456.0
Corporation income taxes	182.2
Unemployment taxes	25.6
Excise taxes	70.5
Estate and gift taxes	27.7
Customs duties	18.4
Other taxes and receipts	42.0
Miscellaneous earned revenues	10.5
Total revenue	1,832.9
Net Cost of Government Operations:	
National defense	413.2
Human resources	905.3
Physical resources	95.1
Interest	230.1
Other functions	112.3
Total net cost of Government operations	1,756.0
Excess of revenue over net cost	76.9
Unreconciled transactions affecting the change in net position (Note 16)	24.4
Increase in net position	101.3
Net position, beginning of period	(6,134.4)
Prior Period Adjustments (Note 17)	6.9
Net position, end of period	(6,026.2)

The accompanying notes are an integral part of these financial statements.

United States Government
Statement of Net Cost
for the Year Ended September 30, 1999

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
National defense	451.2	38.0	413.2
Human Resources:			
Education, training, employment and social services	57.9	1.4	56.5
Health	140.6	0.7	139.9
Medicare	207.0	21.7	185.3
Income security	188.0	6.2	181.8
Social Security	387.7	-	387.7
Veterans benefits and services (Note 11)	(43.2)	2.7	(45.9)
Total human resources	938.0	32.7	905.3
Physical Resources:			
Energy	12.9	12.4	0.5
Natural resources and environment	27.1	2.9	24.2
Commerce and housing credit	89.2	73.9	15.3
Transportation	44.1	1.1	43.0
Community and regional development	14.9	2.8	12.1
Total physical resources	188.2	93.1	95.1
Interest	230.1	-	230.1
Other Functions:			
International affairs	29.6	9.6	20.0
General science, space and technology	17.5	0.1	17.4
Agriculture	27.2	2.4	24.8
Administration of justice	31.2	1.6	29.6
General government	25.1	4.6	20.5
Total other functions	130.6	18.3	112.3
Total	1,938.1	182.1	1,756.0

The accompanying notes are an integral part of these financial statements.

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United States Government
Balance Sheet
as of September 30, 1999

(In billions of dollars)

Assets:	
Cash and other monetary assets (Note 2)	115.2
Accounts receivable (Note 3)	35.0
Loans receivable (Note 4)	183.7
Taxes receivable (Note 5)	22.7
Inventories and related property (Note 6)	173.3
Property, plant and equipment (Note 7)	298.8
Other assets (Note 8)	54.3
Total assets	883.0
Liabilities:	
Accounts payable (Note 9)	85.8
Federal debt securities held by the public (Note 10)	3,631.6
Federal employee and veteran benefits payable (Note 11)	2,600.7
Environmental and disposal liabilities (Note 12)	313.2
Benefits due and payable (Note 13)	73.8
Loan guarantee liabilities (Note 4)	35.1
Other liabilities (Note 14)	169.0
Total liabilities	6,909.2
Commitments and Contingencies (Note 18)	
Net Position	(6,026.2)
Total liabilities and net position	883.0

The accompanying notes are an integral part of these financial statements.

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United States Government Stewardship Information for the Year Ended September 30, 1999 (Unaudited)

Stewardship Assets

The Federal Government holds "Stewardship assets" for the benefit of the Nation. Because the Government has been entrusted with, and made accountable for, these resources and responsibilities, they are recognized in the *Financial Report of the United States Government*.

When acquired, "Stewardship assets" are treated as expenses in the financial statements. This section provides more detailed stewardship information on these resources to highlight their long-term benefit and to demonstrate accountability. This information facilitates the understanding of the operations and financial condition of the Government.

National Defense Assets

National defense property, plant and equipment consist of: (1) assets owned by the Department of Defense in the performance of military missions, such as combat operations, peacekeeping and support of civilian authorities during civil emergencies; and (2) vessels held in a preservation status by the Maritime Administration's National Defense Reserve Fleet.

"National defense assets" are defined in terms of four categories:

Weapons systems— equipment that launches, releases, carries, or fires a particular piece of ordnance and/or carries weapons systems-related property, equipment, materials, or personnel. Examples include aircraft, ships, tracked combat vehicles and missiles.

- Weapons systems support principal end items —items that are acquired to support weapons systems and may ultimately be incorporated in weapons systems. Examples include aircraft engines, tank engines, aircraft radars, ship sonar, uninstalled missile motors, gun mounts and guidance systems.
- Mission support equipment—deployable equipment that: (1) is essential to the effective operation of a weapons system or is used by the military departments to effectively perform their military missions; (2) has an indeterminate or unpredictable useful life due to the manner in which it is used; and (3) is at a very high risk of being destroyed during use or of premature obsolescence.

National Defense Assets, cont.

Examples include: surveillance unmanned air vehicles, non-tactical vehicles (e.g., fuel tankers, combat operations centers, mess vehicles), field meteorological systems, cryptography systems, and field security systems.

Weapons systems support real property—facilities and structures affixed to the land that are integral to a weapons system. Examples include ammunition bunkers in active use and missile silos in active use.

The accompanying "National defense asset" information does not report quantities of mission support equipment although the annual investments in these items are reported.

The investment amounts in "National defense assets" presented in this report reflect the sum of annual investment amounts reported by each military department. DOD does not currently have cost accounting systems that capture the full costs, as described in Statement of Federal Financial Accounting Standards (SFFAS) No. 4 associated with "National defense assets." Therefore, the annual investments shown in this report represent annual disbursements for each category of "National defense assets."

National Defense Assets

(In number of systems or items)	Restated* Balance as of September 30, 1998	Additions	Deletions	Balance as of September 30, 1999
Aircraft:				
Combat	8,660	52	351	8,361
Airlift	6,059	23	148	5,934
Other aircraft	3,740	67	247	3,560
Ships:				
Submarines	123	1	7	117
Aircraft carriers	18	-	-	18
Surface combatants	269	26	13	282
Amphibious warfare ships	83	-	7	76
Mine warfare ships	38	1	-	39
Support ships	241	6	33	214
Other ships	3,921	55	229	3,747
Combat Vehicles:				
Tracked	44,522	328	684	44,166
Wheeled	140,376	1,596	-	141,972
Towed	7,044	-	78	6,966
Other combat vehicles	12,744	829	19	13,554
Guided, Self-propelled Ordnance:				
Missiles	453,056	18,094	6,832	464,318
Torpedoes	8,486	216	29	8,673
Space Systems:				
Satellites	78	8	1	85
Weapons Systems Support Real Property:				
Active ammunition bunkers	23,468	398	756	23,110
Active missile silos	993	1	158	836
Active satellite ground stations	81	-	-	81
Reserve Fleet Vessels	n.a.	n.a.	n.a.	144

*The balances as of September 30, 1998, have been restated to reflect changes from previous year's reporting.

n.a. = Not available

Investments in National Defense Assets for the Period Ended September 30, 1999

(In millions of dollars)	
Aircraft:	
Combat	6,901
Airlift	4,354
Other aircraft	2,662
Aircraft support principal end items	1,387
Other aircraft support property, plant and equipment	1,418
Ships:	
Surface combatants	3,591
Submarines	1,409
Ship support principal end items	852
Aircraft carriers	823
Amphibious warfare ships	581
Support ships	371
Mine warfare ships	73
Other ships	30
Other ship support property, plant and equipment	6
Combat Vehicles:	
Combat vehicle support principal end items	1,199
Tracked	354
Wheeled	261
Other combat vehicles support property, plant and equipment	1
Guided, Self-propelled Ordnance:	
Missiles	1,299
Guided, self-propelled support principal end items	815
Guided, self-propelled ordnance support property, plant and equipment	245
Guided, self-propelled ordnance support	34
Torpedoes	70
Space Systems:	
Satellites	1,438
Space systems support principal end items	558
Weapons systems support real property:	
Active ammunition bunkers	19
General mission support property, plant and equipment	5,274
Other:	
Other weapons systems	115
Other weapons systems support principal end items	37
Other weapons support property, plant and equipment	62
Reserve fleet vessels	1,905
Total investments in national defense assets for fiscal year ended September 30, 1999	38,144

Stewardship Land

"Stewardship Land" refers to federally owned land that is not used, or held for use, in "General Government" operations. This category includes land on which military bases are located. This category excludes lands administered by the Bureau of Indian Affairs and held in trust.

Most Stewardship land is "public domain." Between 1781 and 1867, the Government acquired acres of land equal to 79.4 percent of the current acreage of the United States, spending a total of $85.1 million.

United States Government Stewardship Land as of September 30

(In millions of acres)	Predominate Use	Acres	Percent-age
Agency:			
Bureau of Land Management	Public land	264.2	40.9
U.S. Forest Service	National Forest system	192.0	29.8
U.S. Fish and Wildlife Service	National Wildlife Refuge system	88.6	13.7
National Park Service	National Park system	77.9	12.1
Department of Defense	Defense facilities	16.7	2.6
Bureau of Reclamation	Water, power and recreation	5.8	0.9
Total acres		645.2	100.0

Bureau of Land Management

The Department of the Interior's Bureau of Land Management (BLM) manages 264.2 million acres of federally owned land. Congress has charged the Bureau with maintaining this land and its resources to best serve the present and future needs of the American people. Toward this end, BLM manages these lands to allow for a combination of uses including mineral development, outdoor recreation and natural habitat. Some BLM lands are protected and used for their scenic, scientific or historical value. The following table describes those holdings.

Bureau of Land Management Public Lands as of September 30

	Number	Acreage (in thousands)	Miles
National wild and scenic river segments	34	998	2,038
National wilderness areas	136	5,243	-
Wilderness study areas	622	17,298	-
National conservation areas	8	11,692	-
National scenic areas	1	101	-
National recreation areas	1	1,000	-
National historic trails	8	-	3,533
National scenic trails	2	-	568
National recreation trails	26	-	429
Outstanding natural areas	1	-	-
Herd management areas	200	36,070	-
National monuments	1	1,880	-
Areas of critical environmental concern	740	13,112	-
Research natural areas	152	347	-
National natural landmarks	43	599	-
National back country byways	64	-	3,518
Globally important bird areas	2	57	-
National "multiple use" lands	-	175,775	-
BLM total	2,041	264,172	10,086

U.S. Forest Service

The U.S. Forest Service manages 192.0 million acres of federally owned lands for the sustained use of outdoor recreation, range, timber, watershed, wildlife and fish.

Forest land contains 155 named National Forests totaling 153.0 million acres.

The Forest Service reforested 267,013 acres primarily with genetically improved seedlings in fiscal 1999.

Wilderness land contains 34.8 million acres in 38 states and is served by 133,087 miles of trails.

The U.S. Forest Service also manages 20 named grasslands on 3.8 million acres and about 4,348 miles of the wild and scenic river system.

U.S. Fish and Wildlife Service

The U.S. Fish and Wildlife Service manages 88.6 million acres of federally owned lands held primarily for wildlife conservation. It has five goals:

- Preserve, restore and enhance in their natural ecosystems, all species of animals and plants endangered or threatened.
- Perpetuate the migratory bird resource.
- Preserve a natural diversity and abundance of fauna and flora.
- Provide an understanding and appreciation of fish and wildlife ecology.
- Provide refuge visitors a safe, wholesome and enjoyable recreational experience oriented toward wildlife.

The U.S. Fish and Wildlife Service subdivides its management responsibility into the following categories:

- "National Wildlife Refuges" (521 sites on 87.6 million acres).
- "Refuge Coordination areas" (50 sites on 197,049 acres).
- "Waterfowl Production areas" (200 sites on 715,200 acres).
- "Fisheries Research Centers" (83 sites on 16,083 acres).
- "Wild and Scenic Rivers" (8 rivers totaling 1,258 miles in length).

National Park Service

The National Park Service manages 77.9million acres of federally owned lands. These lands are set aside to conserve scenery, nature, historic objects and wildlife so that current and future generations of Americans can enjoy them.

Other types of park areas include: national rivers, parkways, national lakeshores, historic parks, scenic trails, wild and scenic rivers, military parks, reserves, and battlefields.

Summary of Acreage

(In millions of acres)	Acreage
Type of Park Area:	
National parks	49.6
National preserves	21.4
National recreation areas	3.4
National monuments	1.9
National seashores	0.5
Other park areas	1.1
Total acres	77.9

Department of Defense

The Department of Defense uses 16.7 million acres of federally owned land for mission essential purposes including:

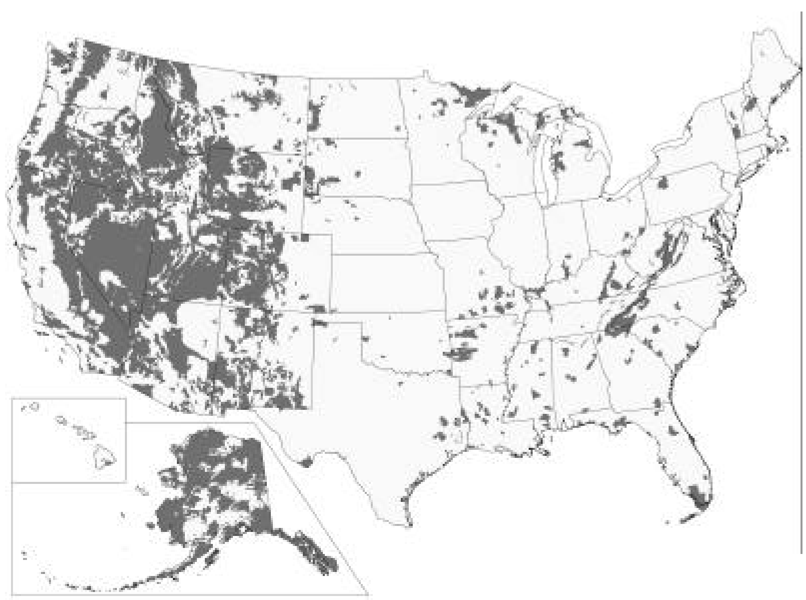
- Military bases
- Installations
- Training ranges

Bureau of Reclamation

The Department of Interior's Bureau of Reclamation (BOR) manages 5.8 million acres of Stewardship land. These lands were withdrawn from the public domain in support of BOR's mandate to provide irrigation water, industrial water, flood control and power. However, if it does not interfere with project purposes, activities such as boating and camping, fish and wildlife management or the grazing of livestock may be authorized.

Heritage Assets

Federal Stewardship Land



Source: National Atlas of the United States of America, U.S. Geological Survey

The Federal Government inventories, preserves and interprets vast numbers of heritage assets for the benefit of the American public. These assets encompass many of the Nation's most precious historic, natural and cultural resources. Heritage assets are unique property, plant and equipment with:

- Historic or natural significance.
- Cultural, educational or artistic importance.
- Significant architectural characteristics.

The public entrusts the Government with these assets and holds it accountable for their preservation. Examples of heritage assets include the Washington Monument, Declaration of Independence, Yosemite National Park and museum objects on display at the Smithsonian Institution.

The following discussion of the Government's heritage assets is not all-inclusive. Rather, it highlights significant heritage assets reported by Federal agencies.

The Government classifies heritage assets into three broad categories:

- Collection-type
- Natural
- Cultural

Collection-type heritage assets include objects gathered and maintained for museum and library collections. Natural heritage assets include national wilderness areas, wild and scenic rivers, natural landmarks, forests and grass lands. Cultural heritage assets include historic places and structures, memorials and monuments, national cemeteries, and archeological sites.

See the Stewardship Land section for the total acreage of some natural heritage assets such as National Forests.

Collection-type Heritage Assets

The Smithsonian Institution holds some of the most prominent Federal museum collections. The Smithsonian acquires, protects and preserves approximately 140 million individual objects for public exhibition, education and research.

Similarly, the Library of Congress holds the world's largest library collection. That collection comprises more than 115 million items. The Library receives two copies of every book, pamphlet, map, print, photograph and piece of music registered for copyright in the United States.

The National Archives holds more than 2 million cubic feet of records. These records ensure ready access to essential information documenting the rights of citizens, actions of Federal officials and the effects of those actions on the national experience. These records include text and legislative records; cartographic and architectural records; motion picture, sound and video records; and still pictures and graphics. The National Archives also maintains historically important documents such as the U. S. Constitution and the Louisiana Purchase Treaty.

Natural Heritage Assets

Congress has designated several "wilderness areas" to preserve their natural conditions. The Department of the Interior manages 255 of these wilderness areas comprising 66.5 percent of the Nation's 103.7 million wilderness acres. The Cebolla Wilderness in New Mexico is one such area.

The "National wild and scenic rivers system" includes protected free-flowing rivers. The Government protects these areas because of their fish and wildlife, or for their scenic, recreational, geologic, historic or cultural value. The Department of the Interior manages 54 percent of these 10,947 river miles, including the Bluestone National Scenic River in West Virginia.

The Government also sets aside natural landmarks that exemplify a region's natural characteristics. The National Park Service identifies 587 national natural landmarks, such as the Garden of the Gods in Colorado.

The U.S. Forest Service manages 155 National Forests and 20 national grasslands on over 192.0 million acres. These areas encompass significant heritage resources. Examples include the White Mountain National Forest in New Hampshire and the Thunder Basin National Grassland in Wyoming.

Cultural Heritage Assets

The National Register of Historic Places lists historic places and structures. This is America's official list of cultural resources worthy of preservation. Official properties include districts, sites, buildings, structures and objects significant to American history. It also includes significant architectural, archaeological engineering and cultural properties. Forest Service land encompasses 887 such properties.

The Nation's monuments and memorials include the Washington Monument, the Vietnam Veterans Memorial and the Jefferson Memorial in Washington, D.C. The National Park Service manages these. Also, the American Battle Monuments Commission manages 27 memorials, monuments and markers around the world. This includes the Belleau Wood Marine Monument in France.

Archeological sites contain the remains of human activity. The Department of the Interior manages over 290,000 archeological sites. The ancient earthen mounds at the Hopewell Culture National Historic Site in Ohio are notable examples.

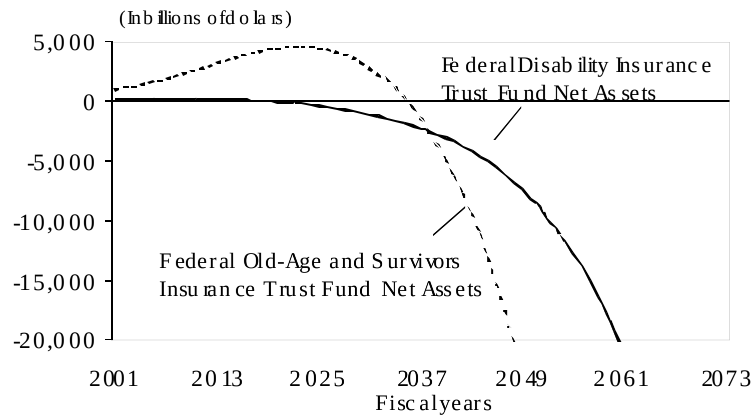
National cemeteries include the Arlington National Cemetery in Virginia and the Fort Logan National Cemetery in Colorado. The Department of the Army manages the Arlington National Cemetery. The Department of Veterans Affairs manages Fort Logan National Cemetery and 118 other cemeteries.

Stewardship Responsibilities

Stewardship Responsibilities provides information on the largest Social Insurance programs: Social Security, Medicare, Railroad Retirement, Black Lung and Unemployment Insurance. Its purpose is to assist the American people in evaluating the financial condition and sustainability of these programs.

Social Security

Social Security Estimated Trust Fund Balances



Congress passed the Social Security Act in 1935. The Act, as subsequently amended, includes programs that provide retirement and disability benefits.

Congress established two trust funds for Social Security: The Federal Old-Age and Survivors Insurance (OASI) and the Federal Disability Insurance (DI) Trust Funds (OASDI). OASI pays retirement and survivors benefits and DI pays benefits to disabled workers.

Revenue to OASDI consists primarily of taxes on earnings paid by employees, their employers and the self-employed. OASDI also receives revenue from the income taxes on some Social Security and interest on its investments in Federal debt securities. Social Security revenues not needed to pay current benefits or administrative expenses are invested in special-issue Federal debt securities. Those securities are guaranteed as to both principal and interest and backed by the full faith and credit of the Government.

The Board of Trustees of the OASI and DI Trust Funds provides in its Annual Report to the President and Congress short-range (10 year) and long-range (75 year) actuarial estimates of each trust fund. Because of the inherent uncertainty in estimates for 75 years into the future, the Board of Trustees uses three alternative sets of economic and demographic assumptions to show the range of possibilities. Assumptions are made about many economic, and demographic factors, including gross domestic product, earnings, the Consumer Price Index (CPI), the unemployment rate, the fertility rate, immigration, mortality, and disability incidence and terminations. The assumptions used in the accompanying tables generally referred to as the "intermediate assumption," reflect the best estimate of expected future experience, under current law.

The present values of actuarial estimates were computed as of January 1, 1999, the beginning of the valuation period. The actuarial estimated contributions equal the sum of the present value of all estimated non-interest income during the period. The actuarial estimated expenditures equal the sum of the present value of all estimated payments during the valuation period. These estimates were prepared using the financing method deemed the most appropriate by both Congress and the Board of Trustees. Estimates assume the program will cover future workers as they enter the labor force.

Under current legislation and using intermediate assumptions, the DI and OASI Trust Funds are projected to be exhausted in 2020 and 2036 respectively. Combined OASDI expenditures will exceed current tax income beginning in 2014 and will exceed total current income (including current interest income) for calendar years 2022 and later. Thus, current tax income plus a portion of annual interest income will be needed to meet expenditures for the years 2014 through 2021. Thereafter, in addition to current tax income and current interest income, a portion of the principal (combined OASDI assets) will be needed each year until the trust fund assets are totally exhausted in 2034. At that point, current tax income will be sufficient to pay only approximately 71 percent of the benefits due.

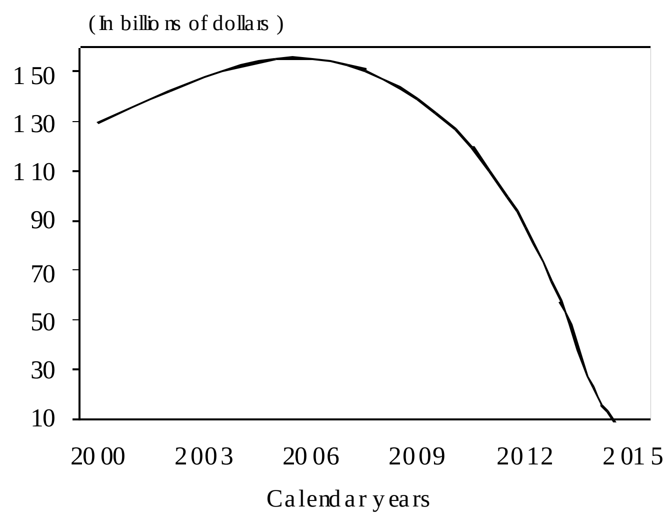
Social Security, cont.

Social Security Present Value Estimates for the Period of 75 Years into the Future, as of January 1, 1999

(In billions of dollars)	OASI	DI	OASDI
Present value of contributions to December 31, 2074	16,830	2,763	19,593
Present value of expenditures to December 31, 2074	19,925	3,366	23,291
Present value of future resources needed	3,095	603	3,698
Less: Net assets of Social Security as of January 1, 1999	682	81	763
Present value of additional resources needed	2,413	522	2,935

Medicare

Estimated Balances of Federal Hospital Insurance Trust Fund (Medicare Part A) Under Intermediate Assumptions



Federal Hospital Insurance Trust Fund revenue consists primarily of taxes on earnings paid by employees, their employers and the self-employed. The fund also receives revenue from part of the taxation of Social Security benefits and from interest on its investments in Federal debt securities. Revenues not needed to pay current benefits of the Federal Hospital Insurance program (Medicare Part A) or administrative expenses are invested in special issue Federal debt securities. These securities bear a market rate of interest and are guaranteed both as to principal and interest. In addition, the securities are backed by the full faith and credit of the U.S. Government.

The present values of actuarial estimates were computed as of the beginning of the valuation period, September 30, 1999. The contributions consist of the sum of the present value of various program income items expected to be received through fiscal 2074. The expenditure consists of the sum of the present value of estimated payments through fiscal 2074, claims incurred through September 30, 1999, that were unpaid as of that date, and administrative expenses related to those claims. Under intermediate assumptions from the 1999 Trustees Report, and legislation in place at the time, the fund is projected to be exhausted in the calendar year 2015.

Appropriations as well as premiums paid by medical beneficiaries finance the benefits and administrative expenses of the Federal Supplementary Medical Insurance (SMI) program (Medicare Part B). The Balanced Budget Act of 1997 provides that the monthly premium be set to cover 25 percent of the Medicare Part B program's estimated cost of each calendar year's estimated Federal Supplementary Medical Insurance program costs.

Medicare Part B has a surplus of $35.2 billion. This represents the estimated book value amount of the Federal Supplementary Medical Insurance Trust Fund assets as of September 30, 1999, less unpaid benefits and related administrative expenses incurred through September 30, 1999.

Medicare Part A (Hospital Insurance)
Present Value Estimates
for the Period of 75 Years into the Future,
Beginning September 30, 1999

(In billions of dollars)	
Present value of contributions to the year 2074	6,538.6
Present value of expenditures to the year 2074	9,615.2
Present value of future resources needed	3,076.6
Less: Net assets in Federal Hospital Insurance Trust Fund as of September 30 (Note 19)	141.4
Present value of additional resources needed	2,935.2

Medicare Part B (Supplementary Medical Insurance) Balances
as of September 30, 1999

(In billions of dollars)	
Total Federal Supplementary Medical Insurance Trust Fund assets (Note 19)	45.6
Total unpaid benefits	10.4
Excess of trust fund assets over unpaid benefits	35.2

Railroad Retirement

Railroad retirement pays full annuities when eligible persons reach age 65 with 10 years of service or age 62 with 30 years of service. It pays reduced annuities to eligible beneficiaries who are age 62 with 10 to 29 years of service, or age 60 with 30 years of service. The Railroad Retirement program pays disability annuities based on total or occupational disability. It also pays annuities to divorced spouses, remarried widow(er)s, surviving divorced spouses, children and parents of deceased railroad workers. Medicare covers qualified railroad retirement beneficiaries in the same way as Social Security beneficiaries.

The Railroad Retirement Board (RRB) and Social Security Administration (SSA) share jurisdiction over the payment of retirement and survivors benefits. RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service. Additionally, for survivor benefits, RRB requires that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA. SSA treats them as Social Security credits.

Payroll taxes paid by railroad employers and their employees provide the primary source of income for the Railroad Retirement-Survivor Benefit program. By law, railroad retirement taxes are coordinated with Social Security taxes. Employees and employers pay tier I taxes at the same rate as Social Security taxes. Tier II taxes finance railroad retirement benefit payments that are higher than Social Security levels.

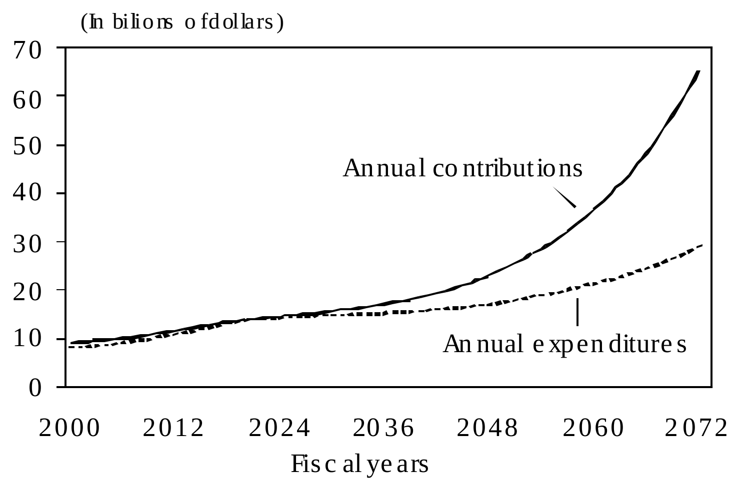
Railroad Retirement, cont.

Other sources of program income include:

- Financial interchanges with the Social Security trust funds.
- Interest on investments.
- Revenue resulting from Federal income taxes on railroad retirement benefits.
- Appropriations (provided after 1974 as part of a phase-out of certain vested dual benefits).

The net book value of assets in the Railroad Retirement Account at September 30, 1999, was $21.9 billion.

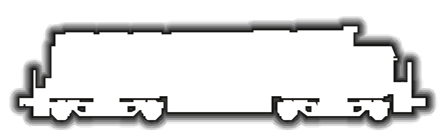
Railroad Retirement Account Estimated Activity



Railroad Retirement Account Present Value Estimates for the Period of 75 Years into the Future, Beginning September 30, 1999*

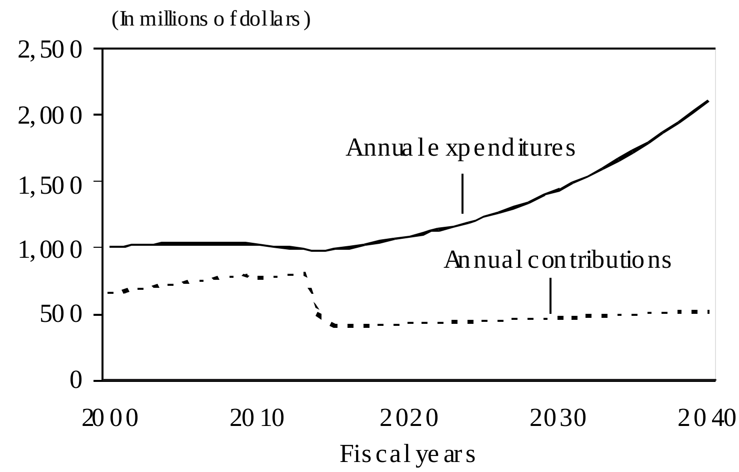
(In billions of dollars)	
Present value of contributions to December 31, 2074	66.5
Present value of expenditures to December 31, 2074	75.5
Present value of excess estimated expenditures over estimated contributions	9.0
Assets in the Railroad Retirement Account as of September 30, 1999	21.9

*These figures take into account future entrants as well as former and present employees.



Black Lung Benefits

Black Lung Fund Estimated Activity



The Black Lung Disability Benefits program compensates eligible coal miners who are disabled because of employment-related pneumoconiosis (black lung disease). The program provides both medical and survivor benefits. Under Part C, the Black Lung Disability Trust Fund (BLDTF) provides benefit payments to eligible disabled miners when no responsible mine operator can be assigned the liability. The Department of Labor (Labor) operates Part C of the Black Lung Disability Benefits program.

Excise taxes on coal mine operators, based on the sale of coal, partially fund the black lung disability payments and the related administrative and interest costs. Intragovernmental advances to the Black Lung Disability Trust Fund, which must be repaid with interest, fund the shortfall.

Under current conditions, analysts project that scheduled reduction in taxes on coal sales will decrease cash inflows for the year 2014 and beyond. Between the years 2013 and 2015, projections estimate a 49-percent decrease in excise tax collections. By the year 2040, the rate reduction is expected to decrease cash inflows by a total of more than $12.6 billion.

To address the Black Lung Disability Trust Fund's growing deficit problem, the fiscal 2001 budget states that the Administration will propose legislation that will restructure the BLDTF debt and extend excise taxes at current rates.

The total liabilities (net borrowings from Treasury to cover benefit payments) of the Black Lung Disability Trust Fund exceed assets by $6.3 billion. This deficit represents the accumulated shortfall of excise taxes necessary to meet benefit payments and interest expenses. Intragovernmental advances, which the Trust Fund must repay with interest, finance the shortfall.

Black Lung Disability Trust Fund Present Value Estimates for the Period of 41 Years into the Future, Beginning September 30, 1999

(In billions of dollars)

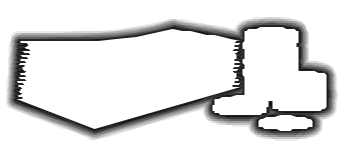
Present value of contributions to September 30, 2040	9.4
Present value of expenditures to September 30, 2040	16.7
Present value of excess estimated expenditures over estimated contributions	7.3
Excess of liabilities over assets in the Black Lung Disability Trust Fund as of September 30, 1999	(6.3)

Unemployment Insurance

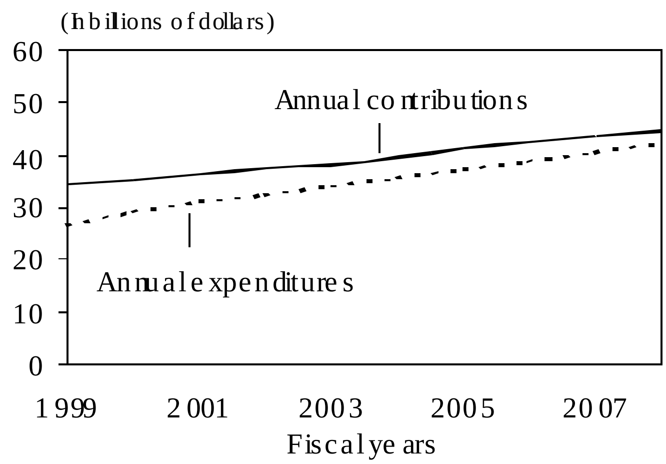
Congress created the Unemployment Trust Fund in 1935. The Fund provides income assistance to unemployed workers who have lost their jobs through no fault of their own. A unique system of Federal and State partnerships administers the Unemployment Insurance program. Although established by Federal law, State officials execute the program. Labor provides broad policy guidance and program direction. State unemployment insurance statutes establish local program details, which they administer.

Federal and State unemployment taxes paid by employers finance the Unemployment Trust Fund. The Government deposits those funds in the Unemployment Trust Fund and reports the income as Federal tax revenue.

Total Unemployment Trust Fund assets exceeded liabilities by $78.9 billion. This balance approximates the accumulated surplus of tax revenues and the earning on these revenues. This surplus remains available to supplement future benefit payments if and when annual revenues become insufficient. Treasury invests the surplus in Federal debt securities.



Unemployment Fund Estimated Activity



Unemployment Trust Fund Present Value Estimates in Nominal Dollars for the Period of 9 Years into the Future, Beginning September 30, 1999

(In billions of dollars)	
Present value of contributions to September 30, 2008	296.1
Present value of expenditures to September 30, 2008	262.3
Present value of excess estimated contributions over estimated expenditures	33.8
Excess of assets over liabilities in the Unemployment Trust Fund as of September 30, 1999 (Note 19).	78.9

Stewardship Investments

Stewardship Investments focus on Government programs aimed at providing long-term benefits by improving the Nation's productivity and enhancing economic growth. These investments can be provided through direct Federal spending or grants to State and local governments for certain education and training programs, research and development, and federally financed but not federally owned property, such as bridges and roads. When incurred, these investments are included as expenses in determining the net cost of operations.

Non-Federal Physical Property

The Federal Government makes grants and provides funds for the purchase, construction and/or major renovation of State and local government physical properties.

The Federal Highway Administration reimburses States for construction costs on projects related to the Federal Highway system. Improvements to national highways, interstate systems, surface transportation as well as congestion mitigation and air quality improvement are backed by these efforts. States contribute 10 percent of the cost for interstate system improvements and 20 percent of costs for other construction.

The Environmental Protection Agency (EPA) provides infrastructure assistance to State and tribal governments. This assistance is in the form of grants for the construction of wastewater and drinking water treatment facilities and groundwater protection.

Meanwhile, formula grants assist urban and non-urban areas. States and localities use these grants for a variety of mass transit purposes including planning, construction of facilities, and purchases of railcars and buses. Funding also pays for transportation for the elderly and disabled.

The Federal Aviation Administration's (FAA's) Air Transportation program provides funding to sustain the current infrastructure and advances modernization and improvement of the National Airspace system.

General Transit Administration discretionary grants provide capital assistance to finance acquisition, construction, reconstruction and improvement of facilities and equipment. Discretionary grants fund the categories of new starts, fixed guidance modernization and bus and bus-related activities.

Investments in Non-Federal Physical Property for the Period Ended September 30

(In billions of dollars)

Highway program	22.9
Water infrastructure grants, Environmental Protection Agency	2.2
Formula grants	2.1
Air transportation	1.6
General Transit Administration	1.5
Economic Development Administration	0.4
Washington Metro	0.2
Investments from all other programs	0.3
Fiscal 1999 investments in non-Federal physical property	31.2

Human Capital

The Federal Government runs several programs that invest in human capital. Those investments go toward increasing and maintaining a healthy economy by educating and training the general public. Costs do not include training expenses for Federal workers.

Education Grants and Administrative Programs

Education grant activities cover improvements of both public and private preschool and secondary education; assistance to post-secondary educational institutions and students pursuing a post-secondary education; programs that assist in educating children and adults with special needs and disabilities; bilingual education; and vocational-technical education.

Employment and Training Administration

The Department of Labor provides job training for the general public to increase and maintain national economic productive capacity. Programs include: adult employment and training; dislocated worker employment and training; youth training; school-to-work opportunities; Job Corps; training programs for Native Americans and migrant and seasonal farm workers.

Federal Family Education Loan Program

The Federal Family Education Loan program operates with State and private nonprofit guaranty agencies to provide loan guarantees and interest supplements on loans by private lenders to eligible students attending participating post-secondary schools.

Veterans Benefits Administration

This agency provides training to assist disabled veterans to become employable. Educational assistance also is provided to veterans under the GI bill.

National Institute of Health (NIH)

The NIH Research and Training and Career Development program addresses the need for trained personnel to conduct medical research. The primary goal is to produce highly trained investigators who are likely to perform research that will benefit the Nation's health.

Veterans Health Administration

This agency provides education and training efforts for health profession students and residents through partnerships with affiliated academic institutions.

Bureau of Indian Affairs

This agency provides education and Job Corps programs.

Investments in Human Capital for the Period Ended September 30

(In billions of dollars)

Education grants and administrative programs	31.5
Employment and training administration	5.5
Federal family education loans program	3.1
Veterans Benefits Administration	1.6
National Institutes of Health	0.8
Veterans Health Administration	0.7
Bureau of Indian Affairs	0.5
Investments from all other programs	1.3
Fiscal 1999 investments in human capital	45.0

Research and Development

Federal investments in research and development comprise those expenses for basic research, applied research and development that are intended to increase or maintain national economic productive capacity or yield other future benefits.

Investments in basic research are a systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind.

Investments in applied research are a systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met.

Investments in development are systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes.

Research and Development, cont.

Investments in Basic Research for the Period Ended September 30

(In billions of dollars)

National Institutes of Health	7.9
Department of Energy	2.5
Science, Aeronautics and Technology	1.8
Department of Defense	1.1
Environmental Protection Agency	0.6
Agricultural Research	0.4
Cooperative State Research, Education and Extension Service	0.2
Investments from all other programs	1.1
Fiscal 1999 investments in basic research	15.6

Investments in Applied Research for the Period Ended September 30

(In billions of dollars)

National Institute of Health	3.9
Department of Defense	3.0
Science, Aeronautics and Technology	2.6
Department of Energy	2.0
National Oceanic and Atmospheric Administration	1.0
U.S. Geological Survey	0.7
Investments from all other programs	3.0
Fiscal 1999 investments in applied research	16.2

Investments in Development for the Period Ended September 30

(In billions of dollars)

Department of Defense	31.9
Science, Aeronautics and Technology	2.7
Human Space Flight	2.5
Department of Energy	2.2
National Institutes of Health	1.7
Investments from all other programs	0.4
Fiscal 1999 investments in development	41.4

Current Services Assessment

The Current Services Assessment table shows the Office of Management and Budget's (OMB's) estimated receipts, outlays, and surplus or deficit in the budget if no changes are made to laws that are already enacted. Receipts and mandatory outlays, such as Social Security benefits and net interest, involve ongoing activities that generally operate under permanent legal authority authorized by legislation. The current services estimates of receipts and mandatory spending assume that receipts and mandatory spending continue in the future as specified by current laws. The current services estimates for discretionary spending assume discretionary funding for fiscal 2000 equals appropriations enacted by Congress. It also assumes that discretionary funding for subsequent years holds constant in real terms. Because laws already enacted provide the bases for current services estimates, they do not constitute a proposed budget, nor do they predict the most likely budget outcomes.

The current services estimates may be used to assess the sustainability of programs under current law. That is, they may be used to project if future resources can sustain public services and meet obligations as they come due. In this way, they can warn of future problems inherent in current law. They also can provide a benchmark against which tax and spending proposals can be compared. Current services estimates are useful in assessing the magnitude of proposed changes. Also, they can provide an analytical perspective of Government by showing the short- and medium-term direction of current programs.

The following schedule presents the actual budget results for fiscal 1999 and the current services estimates for all Federal taxes and spending programs for the subsequent 6 years. It shows receipts by source and outlays by function. The estimates for these years are identical to the current services estimates in the President's budget for fiscal 2001. The following estimates are based on the same economic, programmatic and other technical assumptions as the current services estimates document.

Current Services Assessment Receipt and Outlay Estimates as Presented in the President's Budget

(In billions of dollars)	Base Fiscal Year 1999	2000	2001	2002	2003	2004	2005
Receipts:							
Individual income taxes	879	952	978	1,006	1,040	1,086	1,143
Corporate income taxes	185	192	190	190	192	196	205
Social Insurance and retirement receipts	612	650	683	713	742	771	814
Excise taxes	70	68	69	71	72	74	76
Other receipts	81	94	90	100	105	111	112
Total receipts	1,827	1,956	2,010	2,080	2,151	2,238	2,350
Outlays:							
National defense	275	284	295	300	309	318	326
Social Security	390	407	426	446	469	493	520
Medicare	190	203	221	227	245	259	281
Income Security	238	249	261	274	286	297	310
Health	141	154	166	179	191	205	220
Veteran benefits and services	43	45	48	49	52	54	58
Education, training, employment and social services	56	63	69	70	72	74	76
Transportation	43	47	48	50	51	53	55
Other programmatic functions	137	148	143	139	141	143	145
Net interest	230	220	208	198	189	176	161
Undistributed offsetting receipts	(40)	(43)	(46)	(49)	(47)	(47)	(49)
Total outlays	1,703	1,777	1,839	1,883	1,958	2,025	2,103
Unified surplus	124	179	171	197	193	213	247

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United States Government Notes to the Financial Statements for the Year Ended September 30, 1999

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

This Financial Report includes the financial status and activities of the executive branch and portions of the legislative and judicial branches of the Government. This includes those Government corporations that are part of the Federal Government. The Appendix contains a list of significant Government entities included in these financial statements and also contains a partial list of entities excluded. For the purposes of this document, "Government" refers to the U.S. Government. The financial reporting period is the same used for the annual budget. It is based on the Government's fiscal year, which ends September 30.

Material intragovernmental transactions were eliminated in consolidation, except as described in Note 16.

B. Basis of Accounting

The Financial Report was generally based on generally accepted accounting principles. These principles typically recognize:

- Expenses when incurred.
- Non-exchange revenues on a modified cash basis of accounting.
- Exchange (earned) revenues when earned.

This basis of accounting differs from that used for budgetary reporting.

This fiscal year, new accounting standards became effective pertaining to deferred maintenance.

C. Revenue Recognition

Government revenue comes from two sources: non-exchange transactions and exchange transactions. Non-exchange revenues arise primarily from exercise of the Government's power to tax and levy duties, fines and penalties. Exchange (earned) revenues arise when a Government entity provides goods and services to the public for a price.

Remittances of non-exchange revenue are recognized when received. Related receivables are recognized when measurable and legally collectible. Refunds and other offsets are recognized when measurable and legally payable and netted against non-exchange revenue.

Earned revenue represents revenue earned from user charges such as admission fees to Federal parks, insurance premiums, and fees on Federal housing and loan programs. It is recognized when the Government provides the goods or services.

D. Direct Loans and Loan Guarantees

Direct loans obligated and loan guarantees committed after fiscal 1991 are reported based on the present value of the net cash-flows estimated over the life of the loan or guarantee. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance; the present value of estimated net cash outflows of the loan guarantees is recognized as a liability for loan guarantees. The subsidy expense for direct or guaranteed loans disbursed during a year is the present value of estimated net cash outflows for those loans or guarantees. A subsidy expense also is recognized for modifications made during the year to loans and guarantees outstanding and for reestimates made as of the end of the year to the subsidy allowances or loan guarantee liability for loans and guarantees outstanding.

Direct loans obligated and loan guarantees committed before fiscal 1992 may be reported under the allowance-for-loss method or the present-value method. Under the allowance-for-loss method, the outstanding principal of direct loans is reduced by an allowance for uncollectible amounts; and the liability for loan guarantees is the amount the agency estimates would more likely than not require a future cash outflow to pay default claims.

Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cash-flows; and the liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees.

E. Taxes Receivable

"Taxes receivable" primarily consist of uncollected tax assessments, penalties and interest when taxpayers have agreed the amounts are owed, or a court has determined the assessments are owed. The Balance Sheet does not include unpaid assessments when neither taxpayers nor a court has agreed that the amounts are owed (compliance assessments) or the Government does not expect further collections due to factors such as the taxpayer's death, bankruptcy or insolvency (writeoffs). Taxes receivable are reported net of an allowance for the estimated portion deemed to be uncollectible.

F. Inventories and Related Property

"Inventories" are valued at historical cost. Historical cost methods include first-in-first-out, weighted average and moving average. Estimated repair costs reduce the value of inventory held for repair. Excess, obsolete and unserviceable inventories are valued at estimated net realizable values.

G. Property, Plant and Equipment

"Property, plant and equipment" used in Government operations are carried at cost. Depreciation and amortization expense applies to property, plant and equipment reported in the Balance Sheet except land, unlimited duration land rights, and construction in progress. Depreciation is recognized using the straight-line method over the assets estimated useful lives.

H. Pension and Post-Retirement Health Benefits Programs

"Pension and post-retirement health benefit expenses" are recorded during the time employee services are rendered. The related liabilities for defined benefit pension plans and post-retirement health benefits are recorded at estimated present value of future benefits, less the estimated present value of future normal cost contributions.

"Normal cost" is the portion of the actuarial present value of projected benefits allocated as expense for employee services rendered in the current year. Actuarial gains and losses (and prior and past service cost, if any) are recognized immediately in the year they occur, without amortization.

I. Environmental Liabilities

"Environmental liabilities" are recorded at the estimated current cost to remediate hazardous waste and environmental contamination, assuming the use of current technology. Remediation consists of removal, treatment and/or safe containment. Where technology does not exist to cleanup hazardous waste, only the estimable portion of the liability, typically safe containment, is recorded.

J. Deferred Maintenance

"Deferred maintenance" is maintenance that was not performed when it should have been or was scheduled to be performed and, therefore, is put off or delayed for a future period. Maintenance is the act of keeping fixed assets in acceptable condition including preventative maintenance, normal repairs, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from those originally intended. "Deferred maintenance" information is disclosed in the Supplemental Information to the Financial Statements.

Deferred maintenance expenses are not accrued in the Statement of Net Cost, or recognized as liabilities on the Balance Sheet.

K. Contingencies

Liabilities for contingencies are recognized on the Balance Sheet when both:

- A past transaction or event has occurred.
- A future outflow or other sacrifice of resources is probable and measurable.

The estimated contingent liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, then that amount is recognized. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range is recognized.

Contingent liabilities that do not meet the above criteria for recognition, but for which there is at least a reasonable possibility that a loss has been incurred are disclosed in Note 18—Commitments and Contingencies.

L. Social Insurance

A liability for social insurance programs (Social Security, Medicare, railroad retirement, black lung and unemployment) is recognized for any unpaid amounts due as of the reporting date. No liability is recognized for future benefit payments not yet due. For further information, see the Stewardship Information section on Stewardship Responsibilities and Note 19 on Dedicated Collections.

M. Related Party Transactions

Federal Reserve Banks (FRBs), which are not part of the reporting entity, serve as the Government's depositary and fiscal agent. They process Federal payments and deposits to Treasury's account and service Federal debt securities. FRBs owned $488.9 billion of Federal debt securities held by the public as of September 30, 1999. FRB earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as non-exchange revenue. Those earnings totaled $26.0 billion for the year ended September 30, 1999. The primary source of these earnings is from interest earned on Federal debt securities held by the FRBs.

FRBs issue Federal Reserve notes, the circulating currency of the United States. These notes are collateralized by specific assets owned by FRBs, typically Federal debt securities. Federal Reserve notes are backed by the full faith and credit of the U.S. Government.

The Government does not guarantee payment of Government-sponsored enterprises liabilities such as the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, which are privately owned. These enterprises also are excluded from the reporting entity.

Note 2. Cash and Other Monetary Assets

Cash

"Cash," in the amount of $60.4 billion, consists of:

- Treasury balances held at the FRBs, net of outstanding checks.
- Treasury balances in special depositaries, known as the U.S. Treasury Tax and Loan Note accounts.
- Funds held outside of Treasury and the FRBs by authorized fiscal officers or agents.
- Monies held by Government collection and disbursing officers, agencies' undeposited collections, unconfirmed deposits, and cash transfers.
- Time deposits at financial institutions.

The Government maintains formal arrangements with numerous banks to maintain time deposits known as "compensating balances." These balances compensate the banks for services provided to the Government, such as maintaining zero-balance accounts for the collection of public monies.

Gold

"Gold" is valued at the statutory price of $42.2222 per fine troy ounce. As of September 30, 1999, the number of fine troy ounces was 261,571,005. The market value of gold on the London Fixing as of the reporting date was $299.00 per fine troy ounce. Gold was pledged as collateral for gold certificates issued to the FRBs totaling $11.0 billion. See Note 14—Other Liabilities.

Cash and Other Monetary Assets as of September 30

(In billions of dollars)	
Cash	60.4
Gold	11.0
Domestic monetary assets	1.7
International monetary assets	42.1
Total cash and other monetary assets	115.2

Domestic Monetary Assets

"Domestic monetary assets" consist of liquid assets, other than cash that are based on the U.S. dollar, including coins, silver bullion and other coinage metals. These items totaled $1.7 billion.

International Monetary Assets

Assets valued on a basis other than the U.S. dollar comprise "International monetary assets."

The U.S. reserve position in the International Monetary Fund (IMF) represents an investment in the IMF. The IMF provides financial assistance to about 180 countries. It seeks to promote currency exchange stability.

Only a portion of the required payment to the IMF was paid in cash, with the remainder treated as a subscription. The recorded balance is shown net of the subscription portion, which represents a letter of credit payable to the IMF.

As of September 30, 1999, the remaining available balance under the letter of credit totaled $31.4 billion. The U.S. reserve position in the IMF has a U.S. dollar equivalent of $19.2 billion as of that date.

Special Drawing Rights (SDRs) are interest-bearing assets obtained through either IMF allocations, transactions with IMF member countries or interest earnings on SDR holdings. Treasury's Exchange Stabilization Fund held SDRs totaling $10.3 billion at the end of fiscal 1999. Those holdings are similar to an investment in the IMF.

On September 30, 1999, "Other liabilities" included an $6.8 billion interest-bearing liability to the IMF. This liability consisted of SDRs obtained through IMF allocations.

International Monetary Assets, cont.

The SDR Act of 1968 authorized the Secretary of the Treasury to issue SDR certificates to FRBs in exchange for cash. The value of these certificates cannot exceed the value of the SDR holdings. The Secretary of the Treasury determines when the FRBs can redeem the SDR certificates. The liability for such redemptions, which totaled $7.2 billion at the end of the fiscal year, is included in Note 14—Other Liabilities. Each SDR was valued at $1.38769 as of September 30, 1999.

"International monetary assets" also include foreign currency and other monetary assets denominated in foreign currency.

Note 3. Accounts Receivable

"Accounts receivable" including related interest receivable, represent claims to cash or other assets from entities outside the Federal Government that arise from the sale of goods or services, duties, fines, certain license fees, recoveries, or other provisions of the law. An allowance for estimated losses due to uncollectible amounts is established when it is more likely than not that the receivables will not be totally collected. Accounts receivable are net of an allowance for uncollectible amounts of $12.5 billion as of September 30, 1999.

Accounts Receivable as of September 30

(In billions of dollars)

Agency or Program Name:	
Department of Energy	4.1
Bureau of Reclamation	3.5
Foreign military sales	2.4
Federal family education loan program	1.8
Operations and maintenance	1.6
Multi-Peril Crop Insurance Fund	0.8
Tennessee Valley Authority power program	0.7
Hazardous Substance Superfund	0.6
Minerals Management Service	0.5
Mail delivery service	0.5
Veterans Health Administration	0.4
Veterans Benefits Administration	0.2
All other programs	17.9
Total accounts receivable, net	35.0

Note 4. Loan and Loan Guarantee Programs

The Federal Government uses two methods, direct loans and loan guarantee programs, to accomplish the same goals. These goals are to promote the Nation's welfare by making direct loans and guaranteeing non-Federal loans to segments of the population not adequately served by non-Federal institutions. For those unable to afford credit at the market rate, Federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-Federal financial institutions are reluctant to grant credit because of the high risk involved, Federal credit programs guarantee the payment of these non-Federal loans and absorb the cost of defaults.

The long-term cost of loans and guarantees outstanding for loans obligated or guarantees committed after fiscal 1991 is the subsidy cost allowance for direct loans outstanding and the liability for loan guarantees outstanding as of the end of fiscal 1999. The long-term cost for loans obligated or guarantees committed before fiscal 1992 is the allowance for uncollectible amounts (or present value allowance) for direct loans outstanding and the liability for loan guarantees outstanding. The long-term cost is based on all direct loans and guaranteed loans disbursed in fiscal 1999 and previous years that are outstanding as of the end of fiscal 1999. It includes the subsidy cost of these loans and guarantees estimated as of the time of loan disbursement and subsequent adjustments such as modifications, reestimates, amortization and write-offs.

"Net Loans Receivable" include related interest and foreclosed property. They are included in the assets section of the Balance Sheet.

The total subsidy expense is the cost of direct loans and loan guarantees recognized during fiscal 1999. It consists of the subsidy expense incurred for direct and guaranteed loans disbursed during fiscal 1999, for modifications made during fiscal 1999 of loans and guarantees outstanding, and for reestimates as of the end of fiscal 1999 of the cost of loans and guarantees outstanding. This expense is included in the Statement of Net Cost.

The Direct Student Loan program, established in fiscal 1994, offers four types of education loans: Stafford, Unsubsidized Stafford, PLUS for parents and consolidation loans. Evidence of financial need is required for a student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. These loans usually mature 9 to13 years after the student is no longer enrolled. They are unsecured.

Rural Electrification and Telecommunications loans are for the construction and operation of generating plants, electric transmission, and distribution lines or systems. These loans carry an average maturity of greater than 20 years and are usually secured.

The major rural programs are funded through the Rural Housing Insurance Fund program account, which includes:

- Very low and low-to-moderate income home ownership loans and guarantees.
- Very low-income housing repair loans.
- Multifamily housing loans and guarantees.
- Domestic farm labor housing loans.
- Housing site loans.
- Credit sales of acquired property.

Loan programs are limited to rural areas that include towns, villages and other places not part of an urban area. The majority of these loans mature in excess of 25 years and are secured by the property of the borrower.

The Federal Family Education Loan program, formerly known as the Guaranteed Student Loan program, was established in fiscal 1965. Like the Direct Student Loan program, it offers four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents and consolidation loans.

The Agency for International Development provides economic assistance to selected countries in support of U.S. efforts to promote stability and security interests in strategic regions of the world.

Export-Import Bank aids in financing and promoting U.S. exports. To accomplish its objectives, the bank's authority and resources are used to:

- Assume commercial and political risk that exporters or private institutions are unwilling or are unable to undertake.
- Overcome maturity and other limitations in private sector financing.
- Assist U.S. exports to meet foreign officially sponsored export credit competition.
- Provide leadership and guidance in export financing to the U.S. exporting and banking communities and to foreign borrowers.

Repayment terms for these loans are usually 1 to 7 years.

The Federal Housing Administration (FHA) provides mortgage insurance encouraging lenders to make credit available to expand home ownership. FHA predominately serves borrowers that the conventional market does not adequately serve such as first-time home buyers, minorities, lower-income families and residents of underserved areas.

Veteran Housing Benefits provide partial guaranty of residential mortgage loans issued to eligible veterans reservists and service members by private lenders. This guarantee allows veterans, reservists and service members to purchase a home without a substantial down payment.

Other loan guarantees include: Small Business Administration loans to minority businesses; and the Farm Service Agency for farm ownership, emergency and disaster loans.

Loan and Loan Guarantee Programs as of September 30

(In billions of dollars)	Loans and Loan Guarantees Outstanding	Long-term Cost of Loans and Loan Guarantees Outstanding	Net Loans Receivable	Amount Guaranteed by the Federal Government	Subsidy Expense for the Fiscal Year ended September 30, 1999
Direct Loans:					
Federal direct student loans	46.5	0.4	46.1		0.4
Rural development	68.9	13.1	55.8		
Federal family education loan programs	23.7	14.5	9.2		
Assistance for states of the former Soviet Union	11.0	4.4	6.6		
Food for progress credits	10.6	7.2	3.4		0.5
HUD, all other	10.3	0.6	9.7		
Direct loans for spectrum auction sales	8.3	(0.4)	8.7		1.2
Export credit guarantees	6.9	3.9	3.0		
All other direct loan programs	49.9	8.7	41.2		1.7
Total	236.1	52.4	**183.7**		3.8
Guaranteed Loans:					
Federal Housing Administration	551.4	5.9		508.1	(5.2)
Veterans housing benefit program	213.5	5.8		84.0	1.1
Federal family education loan programs	127.6	12.2		121.2	3.1
Small business loans	39.6	1.4		31.9	(0.1)
Financing account guarantees and insurance	24.2	5.6		24.2	1.9
Rural Housing Service	10.0	0.2		9.0	
All other guaranteed loan programs	38.6	4.0		36.9	1.0
Total	1,004.9	**35.1**		815.3	1.8

Note 5. Taxes Receivable

Taxes receivable are the gross tax receivables net of allowance for doubtful accounts.

Taxes Receivable as of September 30

(In billions of dollars)	
Gross taxes receivable	79.2
Allowance for doubtful accounts	(56.5)
Taxes receivable, net	22.7

Note 6. Inventories and Related Property

"Inventories and related property" consist of the categories listed below, net of allowance for obsolete and unserviceable inventory, as of September 30, 1999.

"Inventory held for sale" includes tangible personal property held for sale, net of allowances.

"Operating Materials and Supplies" are comprised of tangible personal property purchased for use in normal operations.

"Materials and supplies held for future use" include tangible personal property not readily available in the market or held because there is more than a remote chance that they will eventually be needed.

"Stockpile materials" are strategic and critical materials held for use in national defense, conservation or national emergencies due to statutory requirements; for example, cobalt, tin and nickel.

"Commodities" include items of commerce or trade that have an exchange value used to stabilize or support market prices.

"Seized monetary instruments" comprise only monetary instruments. These monetary instruments are awaiting judgement to determine ownership. The related liability is included in "Other liabilities." Other property seized by the Government, such as real property and tangible personal property, is not included as a Government asset. It is accounted for in agency property-management records until the property is forfeited, returned or otherwise liquidated.

"Forfeited property" is comprised of monetary instruments, intangible property, real property and tangible personal property acquired through forfeiture proceedings; property acquired by the Government to satisfy a tax liability; and unclaimed and abandoned merchandise.

Inventories and Related Property as of September 30

(In billions of dollars)	Defense	All Others	Total
Inventory held for sale	67.0	1.1	68.1
Operating materials and supplies	40.9	5.5	46.4
Materials and supplies held for future use	17.8	0.1	17.9
Stockpile materials	2.8	37.5	40.3
Commodities	-	0.4	0.4
Seized monetary instruments	-	0.1	0.1
Forfeited property	-	0.1	0.1
Total inventories and related property	128.5	44.8	173.3

Note 7. Property, Plant and Equipment

"Property, plant and equipment" consist of tangible assets, including land, buildings, structures and other assets used to provide goods and services. Certain types of tangible assets, collectively referred to as "Stewardship Assets," are not reported as property, plant and equipment or elsewhere on the Balance Sheet. This is based on accounting standards that became effective for fiscal 1998. "Stewardship assets" include "National defense assets," "Heritage assets" and "Stewardship land." These assets are presented in the Stewardship Information section.

Property, Plant and Equipment as of September 30

(In billions of dollars)	Cost	Accumulated Depreciation/ Amortization	Net
Buildings, structures and facilities	284.8	135.3	149.5
Furniture, fixtures and equipment	151.0	75.0	76.0
Construction in progress	49.3	-	49.3
Land and land improvements	25.4	5.5	19.9
Automated data processing software	3.8	2.0	1.8
Assets under capital lease	1.5	0.5	1.0
Leasehold improvements	2.0	0.7	1.3
Total property, plant and equipment	517.8	219.0	298.8

Note 8. Other Assets

The category of "Other assets" consists of advances and prepayments, securities and investments, and other Government assets not otherwise classified. This figure presents securities at cost, net of unamortized premiums and discounts.

Other Assets as of September 30

(In billions of dollars)	
Securities and investments	17.2
Advances and prepayments	13.0
Other	24.1
Total other assets	54.3

Note 9. Accounts Payable

The figure under "Accounts payable" includes "Interest on Federal debt securities held by the public." This reflects unpaid interest accrued on Federal debt securities held by the public (see Note 10) as of September 30, 1999. Other accounts payable are for goods and property ordered and received, and for services rendered by other than employees.

Accounts Payable as of September 30

(In billions of dollars)

Agency:	
Interest on Federal debt securities held by the public	42.6
DOD	16.7
OPM	1.2
U.S. Postal Service	4.0
NASA	2.9
Agriculture	2.7
VA	2.3
HUD	1.8
Justice	1.6
AID	1.4
General Services Administration	1.2
Transportation	1.0
Energy	1.0
Executive Office of the President	1.0
All other departments	4.4
Total accounts payable	85.8

Note 10. Federal Debt Securities Held by the Public

Definitions of Debt

- **Gross Federal Debt** - All Government debt, whether issued by Treasury (Treasury securities) or by other agencies (agency securities). "Gross Federal debt" is either held by the public or by Federal Government entities.
- **Debt Held by the Public** - Federal debt held outside the Government by individuals, corporations, State or local governments, the Federal Reserve System, and foreign governments and central banks.
- **Intragovernmental holdings** - Federal debt held by Government trust funds, revolving funds and special funds.

"Federal debt held by the public" totaled $3,631.6 billion at the end of fiscal 1999. The accompanying Federal Debt Securities table details Government borrowing to finance operations. This table shows debt at face value. Unamortized premiums are added and unamortized discounts subtracted.

"Intragovernmental holdings" represent the portion of the gross Federal debt held as investments by Government entities.

This includes major trust funds. For more information on trust funds, see Note 19—Dedicated Collections. This report eliminates intragovernmental holdings in consolidation.

Securities that represent debt held by the public are primarily issued by the Treasury and include:

- Interest-bearing marketable securities (bills, notes and bonds).
- Interest-bearing nonmarketable securities (foreign series, State and local government series, domestic series, and savings bonds).
- Non-interest bearing debt (matured and other).

As of September 30, 1999, $5,568 billion of Federal debt was subject to a statutory limit (31 U.S.C. 3101). That limit was $5,950 billion. The debt subject to the limit includes:

- Debt held by the public and intragovernmental holdings,

Note 10. Federal Debt, cont.

less most agency securities, Federal Financing Bank debt, miscellaneous debt, and unrealized discount on Government account series securities.

- Unamortized net discounts on public issues of Treasury notes and bonds (other than zero-coupon bonds).

Federal Debt Securities Held by the Public as of September 30

(In billions of dollars)	Beginning Balance Sept. 30, 1998	Net Change During Fiscal 1999	Ending Balance Sept. 30, 1999	Average Interest Rate During Fiscal 1999
Treasury Securities:				
Marketable securities	3,331.0	(98.0)	3,233.0	6.341%
Non-marketable securities	2,187.7	226.6	2,414.3	6.674%
Non-interest bearing debt	7.5	1.5	9.0	
Total Treasury securities	5,526.2	130.1	5,656.3	
Plus: Unamortized premium on Treasury securities	16.9	(0.9)	16.0	
Less: Unamortized discount on Treasury securities	78.9	1.5	80.4	
Total Treasury securities, net of unamortized premiums and discounts	5,464.2	127.7	5,591.9	
Agency Securities:				
Tennessee Valley Authority	26.7	(0.8)	25.9	
All other agencies	2.3	(0.2)	2.1	
Total agency securities, net of unamortized premiums and discounts	29.0	(1.0)	28.0	
Total Federal debt	5,493.2	126.7	5,619.9	
Less: Intragovernmental holdings, net of unamortized premiums and discounts	1,775.5	212.8	1,988.3	
Total Federal debt securities held by the public	3,717.7	(86.1)	3,631.6	

Types of marketable securities:

Bills—Short-term obligations issued with a term of 1 year or less.

Notes—Medium-term obligations issued with a term of at least 1 year, but not more than 10 years.

Bonds—Long-term obligations of more than 10 years.

Intragovernmental Holdings: Federal Debt Securities Held as Investments by Government Accounts as of September 30

(In billions of dollars)	Beginning Balance Sept. 30, 1998	Net Change During Fiscal 1999	Ending Balance Sept. 30, 1999
SSA, Old-Age and Survivors Insurance	653.3	108.9	762.2
OPM, civil service retirement and disability	451.3	30.0	481.3
DOD, military retirement	133.8	7.5	141.3
HHS, Hospital Insurance Fund	118.3	35.4	153.7
SSA, disability insurance	77.0	15.7	92.7
Labor, unemployment	70.6	6.8	77.4
HHS, supplementary medical insurance	39.5	(13.0)	26.5
FDIC funds	39.1	1.7	40.8
Railroad Retirement Board	21.8	2.6	24.4
OPM, Employees Life Insurance	19.4	1.3	20.7
Transportation, Highway Trust Fund	17.9	10.2	28.1
Energy, nuclear waste disposal	11.2	4.0	15.2
All other programs and funds	117.6	8.0	125.6
Subtotal	1,770.8	219.1	1,989.9
Plus: Unamortized net premiums (discounts)	4.7	(6.3)	(1.6)
Total intragovernmental holdings, net	1,775.5	212.8	1,988.3

Note 11. Federal Employee and Veteran Benefits Payable

The Government offers its employees life and health insurance, as well as retirement and other benefits. These benefits apply to civilian and military employees.

The Federal Government administers more than 40 pension plans. The Office of Personnel Management (OPM) administers the largest civilian plan. Department of Defense (DOD), meanwhile, administers the largest military plan. The Government offers both defined benefit and defined contribution pension plans. The largest are defined benefit plans. The change in actuarial accrued post-retirement health benefits liability and components of related expense for fiscal 1999 are presented below.

Federal Employee and Veteran Benefits Payable as of September 30

(In billions of dollars)	Civilian	Military	Total
Pensions	1,025.2	661.8	1,687.0
Post-retirement health benefits	179.7	196.2	375.9
Veterans compensation and burial benefits	-	483.2	483.2
Liability for other benefits	49.0	5.6	54.6
Total Federal employee and veteran benefits payable	1,253.9	1,346.8	2,600.7

Change in Actuarial Accrued Pension Liability and Components of Related Expenses

(In billions of dollars)	Civilian[1]	Military	Total
Actuarial accrued pension liability, as of September 30, 1998	990.3	650.5	1,640.8
Pension expense:			
Normal costs	22.2	10.4	32.6
Interest on liability	72.0	33.7	105.7
Plan amendments and assumption changes	-	5.7	5.7
Actuarial (gains)/losses	(13.2)	(6.5)	(19.7)
Total pension expense	81.0	43.3	124.3
Benefits paid	(46.1)	(32.0)	(78.1)
Actuarial accrued pension liability, as of September 30, 1999	1,025.2	661.8	1,687.0

[1] Does not include U.S. Tax Court and judicial branch

Significant Assumptions Used in Determining Pension Liability and the Related Expense

(In percentages)	Civilian	Military
Rate of interest	7.00%	6.25%
Rate of inflation	4.00%	3.00%
Projected salary increases	4.25%	3.50%

Change in Actuarial Accrued Post-Retirement Health Benefits Liability and Components of Related Expenses

(In billions of dollars)	Civilian	Military	Total
Actuarial accrued post-retirement health benefits liability, as of September 30, 1998	181.8	223.4	405.2
Prior period adjustments	-	(37.5)	(37.5)
Corrected beginning post-retirement health benefits liability	181.8	185.9	367.7
Post-retirement health benefits expense:			
Normal costs	6.0	4.7	10.7
Interest on liability	11.8	12.0	23.8
Actuarial (gains)/losses	(13.5)	-	(13.5)
Total post-retirement health benefits expense	4.3	16.7	21.0
Claims paid	(6.4)	(6.4)	(12.8)
Actuarial accrued post-retirement health benefits liability, as of September 30, 1999	179.7	196.2	375.9

Significant Assumptions Used in Determining Post-Retirement Health Benefits and the Related Expense

(In percentages)	Civilian	Military
Rate of interest	7.0%	6.5%
Rate of health care cost inflation	7.0%	4.5-10.4%

Civilian Employees

Pensions

The largest civilian pension plan is administered by OPM and covers approximately 90 percent of all Federal civilian employees. This plan includes two components of defined benefits. Those are the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). The basic benefit components of the CSRS and the FERS are financed and operated through the Civil Service Retirement and Disability Fund (CSRDF).

CSRDF moneys are generated primarily from employees, agency contributions, payments from the general fund and interest on investments in Federal debt securities. See Note 19—Dedicated Collections, Civil Service Retirement and Disability Fund.

The Federal Retirement Thrift Investment Board, an independent Government agency, operates the Thrift Savings Plan. Federal employees and retirees covered by CSRS and FERS own the fund's assets. This Financial Report excludes this fund because the employees own its assets.

Federal debt held by the fund is included and classified as Federal debt held by the public. FERS employees may contribute up to 10 percent of base pay to the plan, which the Government matches up to 5 percent. CSRS employees may contribute up to 5 percent of base pay with no Government match.

The Thrift Savings Plan held $29.4 billion in nonmarketable Treasury securities as of September 30, 1999. The Federal Government's related liability is included in "Total Federal debt securities held by the public" in the Balance Sheet.

Health Benefits

Civilian retirees pay the same insurance premium as active employees under the Federal Employee Health Benefits Program (FEHBP). These premiums cover only a portion of the costs.

Other Benefits

Employee and annuitant contributions and interest on investments fund a portion of the Federal Employees Group Life Insurance program. This insurance program pays private insurance companies for Federal employees' group life insurance. The Office of Personnel Management administers this program.

Military Employees (Including Veterans)

Pensions

The Department of Defense (DOD) Military Retirement Fund finances military retirement and survivor benefit programs.

The military retirement system consists of a funded, noncontributory, defined benefit plan. It applies to the Army, Navy, Marine Corps and Air Force. This system includes non-disability retirement pay, disability retirement pay and retirement pay for reserve service and survivor annuity programs.

Health Benefits

Military benefits entitle retirees and their dependents to health care in military medical facilities if a facility can provide the needed care. Until they reach age 65, military retirees and their dependents also are entitled to be reimbursed for the cost of health care from civilian providers. A premium is charged to enroll in DOD's civilian care program. In addition, there are deductible and copayment requirements for civilian care. After they reach 65 years of age, Medicare covers military retirees.

Military retiree health care figures include the cost of education and training, staffing, buildings and equipment, as well as the operations and maintenance of medical facilities. They also include claims paid to civilian providers and the cost of administering the program.

Compensation and Burial Benefits

The Government compensates disabled veterans and their survivors. Veterans compensation is payable as a disability benefit or a survivor's benefit. Entitlement to compensation depends on: the veteran's disabilities having been incurred in, or aggravated during, active military service; death while on duty, or death resulting from service-connected disabilities, if not in active duty.

Burial benefits include a burial and plot or interment allowance payable for a veteran, who at the time of death, qualified to receive compensation or a pension, or whose death occurred in a VA facility.

The liability for veterans compensation and burial benefits payable decreased in fiscal 1999 by $97.8 billion. The primary factor contributing to this decrease was a change in interest rate assumptions. Due to this change, the Statement of Net Cost item titled "Veterans benefits and services" decreased by $204.8 billion.

Other Benefits

Veterans insurance includes the following programs:

- United States Government Life Insurance established in 1919 to handle new issues and the conversion of World War I Risk Term Insurance.
- National Service Life Insurance established in 1940 to meet the needs of World War II service personnel.
- Veterans Special Life Insurance established in 1951 for Korean veterans who did not have service-connected disabilities.
- Service-Disabled Veterans Insurance established in 1951 for veterans with service-connected disabilities.
- Veterans Reopened Insurance established a 1-year reopening in 1965 of National Service Life Insurance for certain disabled World War II and Korean veterans.

Veterans Compensation and Burial Benefits Payable as of September 30

(In billions of dollars)

Veterans	397.5
Survivors	82.8
Burial benefits	2.9
Total compensation and burial benefits payable	483.2

Note 12. Environmental and Disposal Liabilities

During World War II and the Cold War, the United States developed a massive industrial complex to research, produce and test nuclear weapons. This included nuclear reactors, chemical processing buildings, metal machining plants, laboratories and maintenance facilities.

These activities left an environmental legacy of contaminated areas and buildings. Volumes of waste and special nuclear materials require treatment, stabilization and disposal. The resulting environmental liabilities consist of the costs associated with removing, containing and/or disposing of this hazardous waste.

Of those environmental liabilities, this report presents only cleanup costs from Federal operations known to result in hazardous waste that the Federal Government is required to clean up by Federal, State, or local statutes and/or regulations.

The Department of Energy incurred operating and capital expenditures totaling $5.8 billion in fiscal 1999. It used these funds to remediate legacy waste. This includes nuclear materials and facilities stabilization, and waste treatment, storage and disposal activities at each installation.

"Environmental management facilities and sites" include costs for environmental restoration; nuclear material and facility stabilization; and waste treatment, storage and disposal activities at each installation. It also includes cost for related activities such as landlord responsibilities, program management and legally prescribed grants for participation and oversight by Native American tribes and regulatory agencies.

"Active and surplus facilities" represent anticipated remediation cost for those facilities that are conducting ongoing operations but ultimately will require stabilization, deactivation and decommissioning.

"High-level waste and spent nuclear fuel" include the full cost to provide for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel.

Projects with no current feasibility remediation approach are excluded from the estimate. Significant projects not included are:

- Nuclear explosion test areas (e.g., Nevada test site).
- Large surface water bodies (e.g., Clinch and Columbia Rivers).
- Most ground water (even with treatment, future use will be restricted).
- Some special nuclear material (e.g., uranium hexafluoride).

The Department of Defense (DOD) is responsible for the cleanup of facilities it operates or has operated, including restoration of active and Base Realignment and Closure installations and formerly used defense sites; disposal of chemical weapons; environmental costs associated with the disposal of weapons systems (primarily nuclear powered aircraft carriers and submarines); and for training range cleanup.

Environmental and Disposal Liabilities as of September 30
(In billions of dollars)

Department of Energy:	
Environmental management facilities and sites	183.7
Active and surplus facilities	25.4
High-level waste and spent nuclear fuel	14.9
Other	6.7
Total Energy	230.7
DOD:	
Training ranges	34.0
Active installations	15.4
Nuclear powered aircraft carriers and submarines	10.8
Chemical weapons disposal	8.9
Other	10.6
Total DOD	79.7
All other agencies	2.8
Total environmental and disposal liabilities	313.2

Note 13. Benefits Due

These amounts are the benefits owed to program recipients or medical service providers as of the fiscal year end that have not yet been paid. For a description of the programs, see the Stewardship Responsibilities section under Stewardship Information.

Benefits Due and Payable as of September 30

(In billions of dollars)

Federal Old-Age and Survivors Insurance	29.0
Federal Hospital Insurance (Medicare Part A)	13.3
Grants to States for Medicaid	11.6
Federal Supplemental Medical Insurance (Medicare Part B)	10.4
Federal Disability Insurance	6.8
Supplemental security income	1.0
Railroad retirement	0.7
Unemployment insurance	0.4
Other benefits	0.6
Total benefits due and payable	73.8

Note 14. Other Liabilities

"Insurance programs" include bank deposit insurance, guarantees of pension benefits, life and medical insurance. They also include insurance against damage to property (home, crops and airplanes) caused by perils such as flooding and other natural disasters, risk of war, and insolvency.

"Accrued wages and benefits" consist of the estimated liability for civilian and commissioned officers' salaries and wages earned but unpaid. They also include funded annual leave and other employee benefits that have been earned but are unpaid.

Amounts received for goods and services to be provided comprise "Advances from others".

"Exchange Stabilization Fund" includes Special Drawing Rights (SDRs) certificates issued to the Federal Reserve Banks and allocations from the International Monetary Fund.

"Other debt" includes Government obligations, whether secured or unsecured, not included in public debt.

"Gold certificates" are monetarized portions of gold and the certificates are deposited in the Federal Reserve Bank.

"Deferred revenue" refers to revenue received but not yet earned.

"Other miscellaneous liabilities" include amounts accrued for contingent liabilities.

Other Liabilities as of September 30

(In billions of dollars)

Insurance programs	21.2
Accrued wages and benefits	18.5
Advances from others	16.0
Exchange Stabilization Fund	14.0
Other debt	11.3
Gold certificates	11.0
Deferred revenue	9.5
Unclassified deposited funds	7.1
Other miscellaneous liabilities	60.4
Total other liabilities	169.0

Note 15. Collections and Refunds of Federal Revenue

Treasury is the Federal Government's principal revenue-collecting agency.

Collections of "Individual income and tax withholdings" include estimated income tax payments by individuals, Social Security and Medicare taxes, railroad retirement taxes and individual income tax withholdings.

Refunds of "Individual income and tax withholdings" include refunds from the Earned Income Tax Credit (EITC). The EITC is a refundable credit for taxpayers who work and whose earnings fall below the established ceiling. A refundable credit is first used to offset any individual taxes owed; any remaining amounts are issued to the taxpayer. Amounts reported for corporate income taxes in tax year 1999 include corporate taxes of $8 billion for tax year 2000. In fiscal 1999, the IRS issued $25.6 billion in EITC refunds. An additional $4.9 billion of the EITC credits were applied to reduce taxpayer liability. These EITC amounts are included in "Gross Cost" in the Statement of Net Costs as a component of the income security function.

Collections of Federal Revenue for the Fiscal Year Ended September 30

(In billions of dollars)	Federal Revenue Collections	Tax year to which collections relate: 1999	1998	1997	Prior years
Individual income and tax withholdings	1,588.2	1,020.4	547.4	11.4	9.0
Corporate income taxes	216.0	142.8	62.5	1.1	9.6
Unemployment taxes	26.5	24.6	1.9	-	-
Excise taxes	72.0	48.4	23.5	-	0.1
Estate and gift taxes	28.4	-	25.0	1.0	2.4
Customs duties	19.1	19.1	-	-	-
Federal Reserve Bank earnings	26.0	18.6	7.4	-	-
Fees and licenses	1.6	1.6	-	-	-
Fines, penalties, interest and other taxes	6.7	4.4	2.3	-	-
Total	1,984.5	1,279.9	670.0	13.5	21.1

Federal Tax Refunds Disbursed for the Fiscal Year Ended September 30

(In billions of dollars)	Refunds Dispersed	Tax year to which the refunds relate: 1999	1998	1997	Prior years
Individual income and tax withholdings	149.2	0.6	138.9	7.2	2.5
Corporate income taxes	33.8	1.5	14.2	6.3	11.8
Unemployment taxes	0.1	-	0.1	-	-
Excise taxes	1.3	0.2	0.4	-	0.7
Customs duties	1.2	0.4	0.3	0.1	0.4
Estate and gift taxes	0.7	-	0.2	0.3	0.2
Total	186.3	2.7	154.1	13.9	15.6

Note 16. Unreconciled Transactions Affecting the Change in Net Position

The reconciliation of the "Change in Net Position" requires that the difference between ending and beginning net position equals the excess of revenues over cost, plus or minus prior period adjustments.

The unreconciled transactions needed to bring the change in net position into balance net to $24.4 billion.

The three primary factors affecting this out-of-balance situation are:

- Improper recording of intragovernmental transactions by agencies.
- Transactions affecting Balance Sheet assets and liabilities not properly identified by agencies as prior period adjustments.
- Timing differences and errors in the reporting of transactions.

The Federal financial community considers the identification and reporting of these unreconciled transactions a priority.

Note 17. Prior Period Adjustments

"Prior period adjustments" consist of a net $6.9 billion adjustment to the opening net position, to correct errors in prior periods.

Significant components of this net adjustment include:

- A $37.5 billion decrease of the beginning post-retirement health benefits liability for military personnel (see Note 11— Federal Employee and Veteran Benefits Payable), and
- A $28.5 billion increase of the environmental liabilities for long-term surveillance and maintenance, and decontamination and decommissioning costs.

Note 18. Commitments and Contingencies

The Government has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations as shown in the table below. "Undelivered orders" represent the value of goods and services ordered that have not yet been received.

Contingent liabilities related to the loan guarantee programs are described in Note 4.

A contingency is an existing condition or situation involving uncertainty as to a possible loss. A loss is considered reasonably possible if the future confirming event or events are more than remote, but less than probable. These contingencies do not include existing conditions or situations where the future occurring event is only considered remote, nor do they include contingencies that would result in a gain.

The Government also is subject to contingencies, including litigation, that arise in the normal course of operations. The ultimate disposition of these matters is unknown. Based on information currently available, however, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the financial statements, except for litigation described in the next paragraph.

Numerous cases are pending involving supervisory goodwill at savings and loan institutions, Medicare cost report settlements, harbor maintenance fees and certain other matters. While it is likely that the United States will have to pay some amount of damages on the claims, the ultimate costs can not be reasonably estimated at this time.

The Government also has unused statutory lines of credit to Government sponsored enterprises totaling $10 billion.

Financial Treatment of Loss Contingencies

Probability of Loss	Probable	Reasonably Possible, more than remote but less than probable	Remote, chance of occurrence slight
Financial Treatment	Balance Sheet	Footnote Disclosure	No disclosure

Commitments as of September 30

(In billions of dollars)

	Capital Leases	Operating Leases
Long-term Leases:		
General Services Administration (GSA)	0.3	15.7
U.S. Postal Service	0.6	8.5
Department of Justice	-	3.9
National Institutes of Health	-	0.6
Other long-term leases	0.9	2.3
Total long-term leases	1.8	31.0
Undelivered Orders:		
HUD	104.3	
Navy	28.0	
Education	21.5	
HHS	19.7	
Executive Office of the President	16.4	
Defense agencies	14.1	
Rural development	13.9	
Other undelivered orders	187.1	
Total undelivered orders	405.0	
Other Commitments:		
National Oceanic and Atmospheric Administration satellites and weather systems	5.6	
Transportation	3.0	
GSA	1.5	
Navy	0.4	
Commodity Credit Corporation	0.3	
Total other commitments	10.8	

Contingencies as of September 30

(In billions of dollars)

Insurance:	
Export-Import Bank	40.9
Pension Benefit Guaranty Corporation	19.0
Overseas Private Investment Corporation	0.2
Bank Insurance Fund	0.2
Other insurance programs	0.2
Total insurance programs	60.5
Unadjudicated Claims:	
Air Force	0.8
Interior	0.4
GSA	0.2
Federal Savings and Loan Insurance Corporation Resolution Fund	0.1
Bank Insurance Fund	0.1
Army	0.1
Other unadjudicated claims	0.6
Total unadjudicated claims	2.3
Other Contingencies:	
Multi-lateral development banks	67.4
Production flexibility program	5.1
Conservation reserve program	1.3
Environmental cleanup	1.1
Contingent liabilities	0.5
Nuclear waste fund	0.5
Real property activities	0.4
Other contingencies	1.4
Total other contingencies	77.7

Note 19. Dedicated Collections

The term "trust fund," as used in this report and in Federal budget accounting, is frequently misunderstood. In the private sector, "trust fund" refers to funds of one party held by a second party (the trustee) in a fiduciary capacity. In the Federal budget, the term "trust fund" means only that the law requires the funds be accounted for separately, used only for specified purposes and designated as a "trust fund." A change in law may change the future receipts and the terms under which the fund's resources are spent.

"Trust fund assets" represent the unexpended balance from all sources of receipts and amounts due the trust fund, regardless of source. This includes related governmental transactions. These are transactions between two different entities within the Federal Government (for example, monies received by one entity of the Government from another entity of the Government).

"Intragovernmental net assets" are comprised of investments in Federal debt securities, related accrued interest and fund balance with Treasury. These amounts were eliminated in preparing this Financial Report.

"Consolidated assets" represent only the amounts due from individuals and other entities outside the Government. This means that all related governmental transactions are removed to present the Government's position as a whole.

The majority of trust fund assets is invested in intragovernmental Federal debt securities. These securities require redemption if a fund's disbursements exceed its receipts. Redeeming these securities will increase the Government's financing needs and require more borrowing from the public (or less repayment of debt prior to maturity) or will result in higher taxes than otherwise would have been needed.

Dedicated Collections as of September 30*

(In billions of dollars)	Receipts	Disbursements	Assets: Trust Fund Net Assets	Assets: Less Intragovernmental Net Assets	Assets: Consolidated Assets
Fund Name					
Federal Old-Age and Survivors Insurance Trust Fund	444.7	334.4	745.9	745.9	-
Federal Disability Insurance Trust Fund	67.9	52.0	87.1	87.1	-
Medicare Part A	150.5	132.4	141.4	141.4	-
Medicare Part B	85.1	79.6	45.6	45.6	-
Unemployment Trust Fund	31.8	25.0	78.9	78.9	-
Hazardous Substance Superfund	0.9	1.5	4.4	4.4	-
Highway Trust Fund	39.3	29.3	28.0	28.0	-
Airport and Airway Trust Fund	11.1	7.7	12.7	12.7	-
Civil Service Retirement and Disability Fund	73.9	43.9	490.4	490.1	0.3
Military Retirement Fund	38.0	32.0	156.0	156.0	-
Railroad Retirement Board Trust Fund	5.1	8.2	21.9	21.9	-

*By law, certain expenses (costs) related to the administration of the above funds are not charged to the funds and are financed by other sources.

Federal Old-Age and Survivors Insurance Trust Fund

This trust fund provides assistance and protection against the loss of earnings due to retirement or death. The assistance is in the form of money payments. The Federal Old-Age and Survivors Insurance Trust Fund is administered by the Social Security Administration (SSA).

Payroll and self-employment taxes primarily fund the Federal Old-Age and Survivors Insurance Trust Fund. Interest earnings on Federal debt securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security benefits provide the fund with additional income.

Federal Disability Insurance Trust Fund

The Federal Disability Insurance Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability. The assistance is in the form of money payments. SSA administers the Federal Disability Insurance Trust Fund.

Like the Federal Old-Age and Survivors Insurance Trust Fund, payroll taxes primarily fund the Federal Disability Insurance Trust Fund. The Fund also receives income from interest earnings on Federal debt securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and a portion of income taxes paid on Social Security benefits.

Federal Hospital Insurance Trust Fund

The Federal Hospital Insurance Trust Fund finances the Hospital Insurance program (Medicare Part A). This program funds the cost of hospital and related care for individuals age 65 or older, who meet certain insured status requirements, and for eligible disabled people. The Department of Health and Human Services (HHS) administers the program.

The Federal Hospital Insurance Trust Fund is financed primarily by payroll taxes, including those paid by Federal agencies. It also receives income from interest earnings on Federal debt securities and a portion of income taxes paid on Social Security benefits.

Federal Supplementary Medical Insurance Trust Fund (Medicare Part B)

The Federal Supplementary Medical Insurance Trust Fund finances the Supplemental Medical Insurance program (Medicare Part B), which provides supplementary medical insurance for eligible participants to cover medical expenses not covered by Medicare Part A. The Department of Health and Human Services administers the program.

Appropriations, premiums charged to enrollees and interest earned on investments in Federal debt securities fund the Federal Supplementary Medical Insurance Trust Fund.

Unemployment Trust Fund

The Unemployment Trust Fund protects workers who lose their jobs through no fault of their own. The Unemployment Insurance program is a unique Federal and State partnership based on Federal law, but executed through State law by State officials. The Department of Labor administers the Federal operations of the program.

Taxes on employers primarily fund the Unemployment Trust Fund. However, interest earned on investments in Federal debt securities also provides income to the fund. Appropriations have supplemented its income during periods of high and extended unemployment.

Hazardous Substance Superfund

The Hazardous Substance Superfund was authorized to address public health and environmental threats from spills of hazardous materials and from sites contaminated with hazardous substances. The Environmental Protection Agency (EPA) administers the fund.

The following finance the Hazardous Substance Superfund:

- Excise taxes collected on petroleum, chemicals and imported substances (expired in 1995).
- Environmental taxes from corporations with alternative minimum taxable income in excess of $2 million (expired in 1995).
- Fines and penalties and cost recoveries from responsible parties.
- Appropriations.
- Interest earned on investments in Federal debt securities.

Highway Trust Fund

The Highway Trust Fund was established to promote domestic interstate transportation, and moving people and goods. The fund provides Federal grants to States for highway construction and related transportation purposes. Transportation administers the Highway Trust Fund.

The following provide all financing for the Highway Trust Fund:

- Earmarked taxes on gasoline and other fuels, certain tires, vehicle and truck use.
- Interest earned on investments in Federal debt securities.

Airport and Airway Trust Fund

The Airport and Airway Trust Fund provides for airport improvement, maintenance of airport facilities and equipment, research, and a portion of operations. Transportation administers the Airport and Airway Trust Fund.

The following provide funding for the Airport and Airway Trust Fund:

- Taxes received from transportation of persons and property in the air and fuel used in non-commercial aircraft.
- International departure taxes.
- Interest earned on investments in Federal debt securities.

Civil Service Retirement and Disability Fund

The Civil Service Retirement and Disability Fund covers two Federal civilian retirement systems: the Civil Service Retirement System (CSRS) for employees hired before 1984 and the Federal Employee Retirement System (FERS), for employees hired after 1983.

The CSRS is financed by:

- Federal civilian employees' contributions.
- Agencies' contributions on behalf of the employees.
- Appropriations.
- Interest earned on investments in Federal debt securities.

Military Retirement Fund

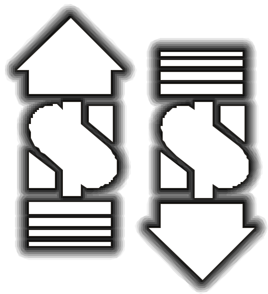
The Military Retirement Fund provides retirement benefits for Army, Navy, Marine Corps and Air Force personnel and their survivors. The fund is financed by DOD contributions, appropriations and interest earned on investments in Federal debt securities.

Railroad Retirement Trust Fund

The Railroad Retirement Trust Fund provides annuities and survivor benefits to eligible railroad employees and their survivors. The fund also pays disability annuities based on total or occupational disability.

Payroll taxes paid by railroad employers and their employees provide the primary source of income for the Railroad Retirement Survivor Benefit program. By law, railroad taxes are coordinated with Social Security taxes.

Note 20. Indian Trust Funds



The Indian Trust Funds differ from other dedicated collections reported in Note 19. The Department of the Interior (Interior) has responsibility for the assets held in trust on behalf of American Indian tribes and individuals. The trust funds are held in accounts for approximately 315 tribes, 317,000 individual Indian accounts and other funds, including the Alaska Native Escrow Fund.

The assets held in trust for Native Americans are owned by the trust beneficiaries and are not the Federal Government's assets. Therefore, these amounts are not reflected in the Balance Sheet or Statement of Operations and Changes in Net Position except for their holdings of nonmarketable Treasury securities, for which the Government's liability is included in Federal debt securities held by the public.

U.S. Government as Trustee for Indian Trust Funds
Held for Indian Tribes and Other Special Trust Funds
Statement of Changes in Trust Fund Balances as of September 30
(Unaudited)

(In millions of dollars)	
Receipts	873.0
Disbursements	(736.7)
Receipts in excess of disbursements	136.3
Trust fund balances, beginning of year	2,460.0
Adjustment	(0.5)
Trust fund balances, end of year	2,595.8

U.S. Government as Trustee for Indian Trust Funds
Held for Individual Indian Monies Trust Funds
Statement of Changes in Trust Fund Balances as of September 30
(Unaudited)

(In millions of dollars)	
Receipts	306.7
Disbursements	(336.6)
Receipts in excess of disbursements	(29.9)
Trust fund balances, beginning of year	479.2
Trust fund balances, end of year	449.3

United States Government Supplemental Information for the Year Ended September 30, 1999 (Unaudited)

Net Cost Detail

The Statement of Net Cost presents the cost of the Government's major functions. The objectives of each of the functions are described below. Also, the statement contains the definitions of "Gross cost," "Earned revenue" and "Net cost."

National Defense

Amounts listed under this function include the cost to provide military forces to deter war; to be prepared to engage in war; and to preserve the peace and security of the United States, the Territories, Commonwealth, its possessions and any area occupied by the United States. National defense also includes the cost to train, equip, compensate and provide retirement benefits for the armed forces; develop, acquire, utilize and dispose of weapon systems; conduct research and development to maintain technological superiority, cut costs and improve performance of weapon systems; and carry out other defense related activities.

Human Resources

Education, Training, Employment and Social Services

The "Education, training, employment and social services" function serves to extend knowledge and skills, enhance employment and employment opportunities, protect workplace standards and provide services to the needy.

Education, Training, Employment and Social Services

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Elementary, secondary and vocational education	17.6	-	17.6
Higher education	14.5	1.4	13.1
Research and general education aids	2.5	-	2.5
Training and employment	5.7	-	5.7
Other labor services	1.0	-	1.0
Social services	16.6	-	16.6
Total education, training, employment and social services	57.9	1.4	56.5

Human Resources, cont.

Health

Listed under the "Health" function are the costs to promote physical and mental health, including the prevention of illness and accidents and the Medicaid program. Although the Medicare program is the largest Federal health program, by law it is in a separate function for budget purposes. Also excluded from the "Health" subfunction is Federal health care for military personnel and veterans.

Medicare

Federal Hospital Insurance (Medicare Part A) and Federal Supplementary Medical Insurance (Medicare Part B) programs make up Medicare. This function is not further subdivided. For more information on Medicare, see the note in the Stewardship Responsibilities section of Stewardship Information, and Note 19—Dedicated Collections.

Social Security

"Social Security" costs include payments to eligible beneficiaries of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs. These are collectively referred to as "Social Security." The Social Security program is the single largest Federal program and is funded primarily by payroll taxes. For more information on Social Security, refer to the Stewardship Information section on Stewardship Responsibilities and Note 19—Dedicated Collections.

Health

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Health care services	123.4	0.5	122.9
Health research and training	14.7	0.1	14.6
Consumer and occupational health and safety	2.5	0.1	2.4
Total health	140.6	0.7	139.9

Income Security

The cost of providing payments to persons unrelated to any current service comprises the "Income security" function. Included are disability, railroad retirement benefits, temporary assistance to needy families and similar programs, other than amounts related to Social Security and veterans. Also included are food stamps, special milk and child nutrition programs; unemployment compensation; and workers' compensation earned income tax credit refunds and reduction of taxpayer liabilities; public assistance cash payments; benefits paid to the elderly and coal miners; and low- and moderate-income housing assistance. The cost of Federal pensions and retiree health benefits are allocated to other functions.

Income Security

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Unemployment compensation	24.5	0.7	23.8
Housing assistance	27.8	-	27.8
Food and nutritional assistance	34.1	0.1	34.0
Other income security	89.8	3.7	86.1
Cost not allocated to subfunctions	11.8	1.7	10.1
Total income security	188.0	6.2	181.8

Human Resources, cont.

Veterans Benefits and Services

The amounts listed under this function include specific benefits and services paid to those with prior military service or their spouse, dependents and survivors. Included are veterans compensation, life insurance, pensions, burial benefits, education, training, medical care, veterans housing and administrative expenses of the Department of Veterans Affairs. The net cost line titled "Veterans benefits and service" decreased this fiscal year by $204.8 billion primarily due to a change in interest rate assumptions in the calculation of the related liability for veterans compensation.

Veterans Benefits and Services

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Income security for veterans	(65.5)	-	(65.5)
Veterans education, training and rehabilitation	1.7	0.2	1.5
Hospital and medical care for veterans	18.2	1.8	16.4
Veterans housing	1.3	0.5	0.8
Other veterans benefits and services	1.1	0.2	0.9
Total veterans benefits and services	(43.2)	2.7	(45.9)

Physical Resources

Natural Resources and Environment

This function is comprised of costs incurred to develop, manage and maintain the Nation's natural resources and environment. Excluded are funding for community water supply programs, basic sewer systems and waste treatment plants that are part of community or regional development programs.

Energy

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Energy supply	11.3	11.9	(0.6)
Energy conservation	0.6	-	0.6
Emergency energy preparedness	0.2	-	0.2
Energy information, policy and regulation	0.8	0.5	0.3
Total energy	12.9	12.4	0.5

Energy

The "Energy" function includes the cost of promoting an adequate supply and appropriate use of energy to serve the needs of the Nation.

Natural Resources and Environment

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Water resources	5.5	0.5	5.0
Conservation and land management	6.2	0.9	5.3
Recreational resources	3.0	0.3	2.7
Pollution control and abatement	8.6	0.6	8.0
Other natural resources	3.8	0.6	3.2
Total natural resources and environment	27.1	2.9	24.2

Physical Resources, cont.

Commerce and Housing Credit

This function encompasses the promotion and regulation of the commerce, housing and deposit insurance industries. Included under "Commerce and housing credit" are costs to collect and disseminate social and economic data; provide general purpose subsidies to business and individuals, including credit subsidies for housing; and support the Postal Service fund.

Transportation

Grants to States and others for local or national transportation of passengers and property make up the bulk of the cost associated with this function. Included are costs to construct facilities; purchase equipment; do research, testing and evaluation; and provide operating subsidies to transportation facilities (such as airports and railroads).

Commerce and Housing Credit

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Mortgage credit	(3.4)	3.7	(7.1)
Postal Service	80.0	61.9	18.1
Deposit insurance	4.3	1.4	2.9
Other advancement of commerce	8.3	6.9	1.4
Total commerce and housing credit	89.2	73.9	15.3

Transportation

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Ground transportation	29.2	-	29.2
Air transportation	9.6	0.4	9.2
Water transportation	5.1	0.7	4.4
Other transportation	0.2	-	0.2
Total transportation	44.1	1.1	43.0

Community and Regional Development

The costs of promoting viable community economies by developing physical facilities or financial infrastructures comprise this function. Also included are the costs of developing transportation facilities that are integral parts of community development programs. Aids to businesses is usually excluded from this function unless it promotes the economic development of depressed areas and is not designed to promote particular lines of business for their own sake.

Community and Regional Development

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Community development	5.1	-	5.1
Area and regional development	4.2	1.1	3.1
Disaster relief and insurance	5.6	1.7	3.9
Total community and regional development	14.9	2.8	12.1

Interest

Interest costs are primarily amounts on Federal debt securities held by the public. Interest payments on these securities are made by Treasury's Bureau of the Public Debt.

Other Functions

International Affairs

This function includes the cost of maintaining peaceful relations, supporting commerce and travel between the United States and the rest of the world, and promoting international security and economic development abroad.

General Science, Space and Technology

This function covers the cost of National Science Foundation research, NASA space programs and Department of Energy general science research.

Agriculture

Costs associated with promoting agricultural economic stability and maintaining and increasing agricultural production are found under the "Agriculture" function.

International Affairs

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
International development and humanitarian assistance	9.8	0.4	9.4
International security assistance	5.8	0.8	5.0
Conduct of foreign affairs	6.1	1.0	5.1
Foreign information and exchange activities	1.2	-	1.2
International financial programs	6.7	7.4	(0.7)
Total international affairs	29.6	9.6	20.0

General Science, Space and Technology

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
General science and basic research	5.6	-	5.6
Space flight, research and supporting activities	11.9	0.1	11.8
Total general science, space and technology	17.5	0.1	17.4

Agriculture

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Farm income stabilization	23.7	1.9	21.8
Agriculture research and service	3.5	0.5	3.0
Total agriculture	27.2	2.4	24.8

Other Functions, cont.

Administration of Justice

The cost of judicial services includes police protection, law enforcement (including civil rights), rehabilitation and incarceration of criminals, and the general maintenance of domestic order. It also includes the cost of providing court-appointed counsel or other legal services for individuals. Not found under "Administration of justice" are the costs of the legislative branch and police and guard activities that protect Federal property. Also, the cost of National Guard personnel and military personnel who are called upon occasionally to maintain public safety and the cost of military police are included under the national defense function.

General Government

"General Government" covers general overhead costs of the Federal Government. This includes legislative and executive activities as well as central fiscal, personnel and property activities. All activities reasonably or closely associated with other functions are included in those functions rather than "General Government."

Administration of Justice

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Federal law enforcement activities	14.8	0.8	14.0
Federal litigative and judicial activities	7.8	0.3	7.5
Federal correctional activities	3.6	0.1	3.5
Criminal justice activities	5.0	0.4	4.6
Total administration of justice	31.2	1.6	29.6

General Government

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Legislative functions	1.9	-	1.9
Executive direction and management	0.7	-	0.7
Central fiscal operations	13.1	0.5	12.6
General property and records management	0.1	0.1	-
Central personnel management	0.3	-	0.3
General purpose fiscal assistance	1.1	-	1.1
Other general Government	7.9	4.0	3.9
Total general Government	25.1	4.6	20.5

Deferred Maintenance

Deferred maintenance is the estimated cost to bring Government owned property to an acceptable condition. This results from not performing maintenance on a timely basis. Deferred maintenance excludes the cost of expanding the capacity of assets or upgrading them to serve needs different from those originally intended. The consequences of not performing regular maintenance could include increased safety hazards, poor service to the public, higher cost in the future and inefficient operations. Estimated deferred maintenance costs are not accrued in the Statement of Net Cost or recognized as a liability on the Balance Sheet.

The amounts disclosed for deferred maintenance have been measured using the following two methods:

- Condition assessment surveys are periodic inspections of the Government owned property to determine the current condition and estimated cost to bring the property to an acceptable condition.
- Life-cycle cost forecast is an acquisition or procurement technique that considers operating, maintenance and other costs in addition to the acquisition cost of assets.

Some deferred maintenance has been deemed to be critical. Such amounts and conditions are defined by the individual agencies with responsibility for the safekeeping for these assets.

Deferred Maintenance as of September 30

(In billions of dollars)	Deferred Maintenance Cost Range: Low Estimate	High Estimate	Critical Maintenance
Asset Category:			
Buildings, structures and facilities	44.3	52.5	43.8
Furniture, fixtures and equipment	.4	.8	-
Other general property, plant and equipment	.2	.3	-
Total general property, plant and equipment	44.9	53.6	43.8
Heritage assets	.3	1.0	1.0
National defense assets	2.7	2.7	-
Total stewardship assets	3.0	3.7	1.0
Total deferred maintenance	47.9	57.3	44.8

Reconciliation of Excess of Revenue over Net Cost

For fiscal 1999, the unified budget reported a surplus of $124.4 billion. For the same period, the Financial Report reports an excess of revenue over cost of $76.9 billion. The difference between these two amounts occurs because they are prepared primarily on different measurement bases to carry out their different objectives.

The Financial Report generally is based on generally accepted accounting principles. Thus, expenses and exchange revenue are generally recognized when the events giving rise to the transactions occur rather than when the cash is received or paid.

Non-exchange revenues are recognized on a modified cash basis of accounting. By contrast, the unified budget is computed primarily on the cash basis, according to accepted budget concepts and policies. The most significant differences between these two bases involve the timing of recognition and measurement of revenue and costs.

The differences between these two bases of accounting can be divided into four primary categories.

1. Receipts recognized in the budget that are not recognized as revenue in the Financial Report, such as:

- Collections of pre-credit reform loans.
- Collections of taxes receivable.
- Collections of accounts receivable.
- Proceeds from the sale of capital assets representing "book value."

2. Revenues recognized in the Financial Report that are not recognized as receipts in the budget, such as:

- Increases in taxes receivable.
- Increases in accounts receivable.

3. Outlays recognized in the budget that are not recognized as costs in the Financial Report, such as:

- Purchases of inventory and general property, plant and equipment.
- Payments of accounts payable.
- Payments of employee pensions and other benefits that reduce prior related liabilities.
- Payments of environmental cleanup and disposal costs that reduce prior related liabilities.

4. Costs recognized in the Financial Report that are not recognized as outlays in the budget, such as:

- Depreciation on general property, plant and equipment.
- Increases in liabilities for employee pensions and other benefits.
- Increases in estimated environmental liabilities.
- Defaults on pre-credit reform loans.
- Decreases in inventory.
- Increases in accounts payable.

The remaining unidentified difference is a net of $30.5 billion. Since some of the differences may be offsetting, the gross difference is larger than the $30.5 billion and may include transactions in all four categories listed above. It also includes the effect of misclassifying intragovernmental transactions and relatively small differences in entity coverage.

Reconciliation of the Excess of Revenue over Net Cost to the Unified Budget Surplus for the Year Ended September 30 (Unaudited)

(In billions of dollars)	
Excess of revenue over net cost	**76.9**
Decrease in veteran compensation and burial benefits:	
Decrease in liability for veterans	(64.8)
Decrease in liability for survivors	(29.3)
Decrease in liability for burial benefits	(0.8)
Decrease in liability for veterans	(94.9)
Increase in environmental liabilities:	
Increase in Energy's environmental liabilities	44.3
Increase in Defense's environmental liabilities	45.7
Decrease in all others environmental liabilities	(1.3)
Increase in environmental liabilities	88.7
Capitalized fixed assets:	
Department of Defense	(23.5)
Civilian agencies	(18.0)
Total capitalized fixed assets	(41.5)
Increase in liability for civilian employee benefits:	
Increase in civilian pension liabilities	28.8
Decrease in civilian health liabilities	(2.1)
Increase in other civilian benefits liabilities	14.9
Increase in liability for civilian employee benefits liabilities	41.6
Decrease in liability for military employee benefits:	
Increase in military pension liabilities	11.3
Decrease in military health liabilities	(27.2)
Decrease in other military benefits	(15.2)
Decrease in liability for military employee benefits	(31.1)
Depreciation expense 1999	17.3
Decrease in benefits due and payable	(3.8)
Increase in inventory	(6.5)
Decrease in taxes receivable	4.4
Increase in other liabilities	14.4
Seigniorage and sale of gold	(1.0)
Decrease in accounts payable	(4.2)
Decrease in accounts receivable	1.2
Principal repayments of pre-credit reform loans	32.4
Net amount of all other differences	30.5
Unified budget surplus	**124.4**

Unexpended Budget Authority

Unexpended Budget Authority is the sum of the obligated, but unliquidated, and unobligated budget authority.

Unobligated budget authority, including trust fund balances, is the cumulative amount of budget authority that is not obligated and that remains available for obligation. In 1-year accounts the unobligated balance is not available after the end of the fiscal year. In multi-year accounts the obligated balance may be carried forward and remains available for obligation for the period specified. In no year accounts the unobligated balance is carried forward until specifically rescinded by law, or until the purposes for which it was provided have been accomplished.

Obligated budget authority is the cumulative amount of budget authority that has been obligated but not yet liquidated. This balance can be carried forward for a maximum of 5 years after the appropriation has expired.

Unexpended Budget Authority as of September 30, 1999 (Unaudited)

(In billions of dollars)	Unobligated Budget Authority	Obligated Budget Authority
Social Security Administration	819.6	36.1
Office of Personnel Management	502.8	5.9
Department of Health and Human Services	198.8	55.8
Department of Defense-Military	60.6	152.7
Other Defense Civil Programs	149.9	2.8
Department of Housing and Urban Development	36.8	107.0
Department of Transportation	58.9	52.5
Department of the Treasury	21.6	18.4
International Assistance Program	36.0	65.2
Department of Labor	90.4	8.4
Independent agencies	74.1	5.9
Department of Agriculture	23.2	15.1
Department of Education	10.2	24.4
Department of Veterans Affairs	16.1	7.1
Department of Energy	12.5	7.8
Department of Justice	4.7	13.8
Environmental Protection Agency	8.0	8.5
Department of State	12.7	3.0
Federal Emergency Management Agency	0.8	8.3
Department of the Interior	5.3	2.9
National Aeronautics and Space Administration	0.9	5.3
Department of Commerce	0.8	3.7
Corps of Engineers	4.0	0.4
National Science Foundation	0.2	4.2
General Services Administration	3.8	0.5
Legislative Branch	1.7	0.4
Small Business Administration	0.7	1.0
Judicial Branch	0.7	0.5
Executive Office of the President	0.3	0.1
Total	2,156.1	617.7

Tax Burden

The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The tables present the latest available information on income tax and on related income, deductions and credit for individuals by income level and for corporations by size of assets.

Individual Income Tax Returns for Tax Year 1997

(In millions of dollars unless otherwise noted)	Size of Adjusted Gross Income: Under $15,000	$15,000 under $30,000	$30,000 under $50,000	$50,000 under $100,000	$100,000 under $200,000	Greater than $200,000
Total number of returns	41.4	29.4	22.8	21.6	5.4	1.8
Gross income	251.9	649.1	895.2	1,490.0	717.3	1,013.4
Adjusted gross income	247.9	642.9	887.9	1,478.9	707.8	1,004.5
Tax	9.1	47.4	90.6	191.6	126.7	274.0
Tax burden, percentage of gross total receipts	3.60%	7.30%	10.13%	12.86%	17.67%	27.04%
Average tax dollars per return	219	1,612	3,983	8,858	23,562	151,565
Deductions on taxable income:						
Standard deduction	175.4	137.2	82.6	42.1	3.6	0.9
Medical and dental expense	5.2	8.6	6.6	6.2	2.0	0.6
Interest	5.3	18.4	45.5	100.0	46.5	34.9
Charitable contributions	1.2	5.5	12.3	29.9	16.9	33.4
Other itemized deductions	3.5	14.0	35.9	91.1	50.5	46.7
Total itemized deductions	15.2	46.5	100.3	227.2	115.9	115.6
Total deductions	190.6	183.7	182.9	269.3	119.5	116.5
Total expenditures, deductions	6.9	13.4	18.5	34.6	21.1	31.5
Credit against tax liability:						
Child care credit	-	0.6	0.7	0.9	0.2	-
Credit for elderly and disabled	-	-	-	-	-	-
Foreign tax credit	-	-	0.1	0.3	0.6	3.0
EITC, offset tax liability	0.4	3.5	-	-	-	-
Other credits	-	-	0.1	0.3	0.3	1.0
Total credits	0.4	4.1	0.9	1.5	1.1	4.2
Total expenditures and credits, individual	7.3	17.5	19.4	36.1	22.2	35.7

Corporate Income Tax Returns for Tax Year 1996

(In millions of dollars unless otherwise noted)	Size of Total Assets (in thousands)					
	Under $1,000	$1,000 under $10,000	$10,000 under $50,000	$50,000 under $100,000	$100,000 under $250,000	Greater than $250,000
Total returns (in thousands)	4,193.3	370.9	42.9	8.5	7.6	8.2
Total receipts	2,103.7	2,204.3	1,357.3	505.4	741.0	8,614.1
Taxable income	24.0	26.2	25.8	16.3	28.9	518.6
Total tax	5.6	8.1	8.4	5.2	9.0	134.2
Tax burden, percent of gross total receipts	0.27%	0.37%	0.62%	1.04%	1.22%	1.56%
Average tax per return (in thousands)	1.3	21.8	196.1	618.5	1,187.2	16,346.4
Deductions on taxable income:						
Net operating loss	10.2	5.6	4.4	2.5	4.2	28.2
Dividends received	0.4	0.5	0.6	0.4	0.9	16.9
Public utility dividends paid	-	-	-	-	-	0.1
Total deductions	2,064.5	2,163.3	1,326.2	486.7	703.4	7,984.1
Total expenditures, deductions	5.5	7.9	8.2	5.0	8.6	124.4
Credits against tax liability:						
Foreign tax credit	0.1	-	0.1	0.2	0.6	39.2
U.S. Possessions tax credit	-	-	0.2	0.2	0.3	2.4
Nonconventional source fuel credit	-	-	-	-	-	0.8
General business credit	0.2	0.1	0.1	0.1	0.1	3.6
Other credits	0.1	0.2	0.2	0.1	0.1	4.1
Total credits	0.4	0.3	0.6	0.6	1.1	50.1
Total expenditures, corporation	5.9	8.2	8.8	5.6	9.7	174.5

Other Information (Unaudited)

Other Claims for Refund

Management has estimated amounts that may be paid out as other claims for tax refunds. This estimate represents an amount (principal and interest) that may be paid for claims pending judicial review by the Federal courts or, internally, by Appeals. The total estimated payout (including principal and interest) for claims pending judicial review by the Federal courts is $7.6 billion and by Appeals is $11.4 billion. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the balance sheet or for disclosure in the notes to the financial statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information.

Federal Taxes Receivable Net

In accordance with SFFAS No. 7, some unpaid assessments do not meet the criteria for financial statement recognition as discussed in Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under Federal accounting standards, they represent legally enforceable claims of the IRS—acting on behalf of the Federal Government. There is, however, a significant difference in the collection potential of these categories.

The components of the total unpaid assessments and derivation of net Federal taxes receivable at September 30, 1999, were as follows:

Federal Taxes Receivable as of September 30

(In billions of dollars)	
Total unpaid assessments	$233.2
Less: Compliance assessments	(27.0)
Write-Offs	(127.0)
Gross Federal Taxes Receivable	79.2
Less: Allowance for doubtful accounts	(56.5)
Federal Taxes Receivable, Net	22.7

The Government cannot reasonably estimate the amount of allowance for doubtful accounts pertaining to its compliance assessments, and thus cannot determine their net realizable value or the value of the pre-assessment work-in-progress.

To eliminate double-counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $15 billion, assessed against officers and directors of businesses who were involved in the nonremittance of Federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Government also may recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

Appendix: List of Significant Government Entities Included and Excluded

This Financial Report includes the executive, legislative and judicial branches of the Government. Excluded are privately owned Government-sponsored enterprises such as the Federal Home Loan Banks and the Federal National Mortgage Association. The Federal Reserve System also is excluded because organizations and functions pertaining to monetary policy are traditionally separate from, and independent of, other central Government organizations and functions.

Significant Entities Included in these Statements:

Department of Agriculture (Agriculture)
www.usda.gov
Department of Commerce (Commerce)
www.doc.gov
Department of Defense (DOD)
www.defenselink.mil
Department of Education (Education)
www.ed.gov
Department of Energy (Energy)
www.doe.gov
Department of Health and Human Services (HHS)
www.hhs.gov
Department of Housing and Urban Development (HUD)
www.hud.gov
Department of Interior (Interior)
www.doi.gov
Department of Justice (Justice)
www.usdoj.gov
Department of Labor (Labor)
www.dol.gov
Department of State (State)
www.state.gov
Department of the Air Force (Air Force)
www.af.mil
Department of the Army (Army)
www.army.mil
Army Corps of Engineers
www.usace.gov
Department of the Navy (Navy)
www.navy.mil
Department of Transportation (Transportation)
www.dot.gov
Department of the Treasury (Treasury)
www.ustreas.gov
Department of Veterans Affairs (VA)
www.va.gov
Agency for International Development (AID)
www.info.usaid.gov
Central Intelligence Agency (CIA)
www.odci.gov/cia/ciahome.html
Congressional Budget Office (CBO)
www.cbo.gov
Commodity Credit Corporation
Commodity Futures Trading Commission
Environmental Protection Agency (EPA)
www.epa.gov
Executive Office of the President
Export-Import Bank of the United States
www.exim.gov
Farm Credit Administration (FCA)
www.fca.gov
Federal Communications Commission (FCC)
www.fcc.gov
Federal Deposit Insurance Corporation (FDIC)
www.fdic.gov
Federal Emergency Management Agency (FEMA)
www.fema.gov
Federal Trade Commission (FTC)
www.ftc.gov
General Accounting Office (GAO)
www.gao.gov
General Services Administration (GSA)
www.gsa.gov
Government Printing Office (GPO)
www.gpo.gov
Library of Congress (LOC)
www.loc.gov
National Aeronautics and Space Administration (NASA)
www.nasa.gov
National Archives and Records Administration
www.nara.gov
National Credit Union Administration (NCUA)
www.ncua.gov
National Science Foundation (NSF)
www.nsf.gov
National Transportation Safety Board (NTSB)
www.ntsb.gov
Nuclear Regulatory Commission (NRC)
www.nrc.gov
Office of Management and Budget (OMB)
www.whitehouse.gov/wh/eop/omb/html/ombhome.html
Office of Personnel Management (OPM)
www.opm.gov

Entities Included, cont.

Other boards and commissions
Other legislative and judicial
Pension Benefit Guaranty Corporation
www.pbgc.gov
Railroad Retirement Board (RRB)
www.rrb.gov
Securities and Exchange Commission (SEC)
www.sec.gov
Small Business Administration (SBA)
www.sba.gov
Smithsonian Institution
www.si.edu
Social Security Administration (SSA)
www.ssa.gov
Tennessee Valley Authority (TVA)
www.tva.gov
U.S. Information Agency
www.usia.gov
U.S. Postal Service
www.usps.gov

Significant Entities Excluded from these Statements:

Army and Air Force Exchange Service
Board of Governors of the Federal Reserve System
Fannie Mae
Farm Credit System
Federal Home Loan Banks
Federal Reserve Banks (FRBs)
Federal Retirement Thrift Investment Board
Financing Corporation
Freddie Mac
Marine Corps Exchange
Navy Exchange Service Command
Resolution Funding Corporation
Sallie Mae
Thrift Savings Fund